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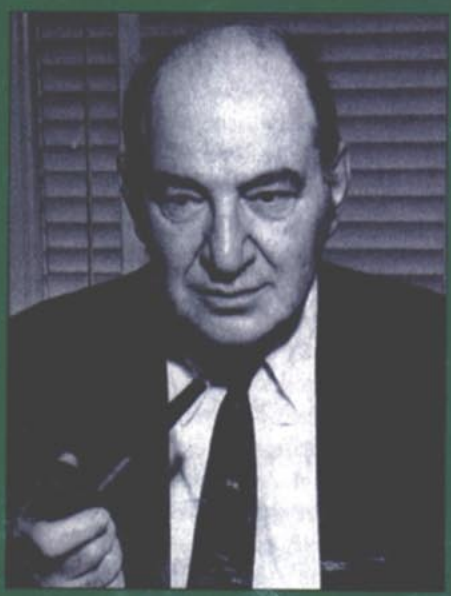
IDEAS ON LIBERTY



Frank Chodorov: Champion of Liberty

The Market Didn't Do It

Free-Market Economics in a Phone Booth

DECEMBER 1996

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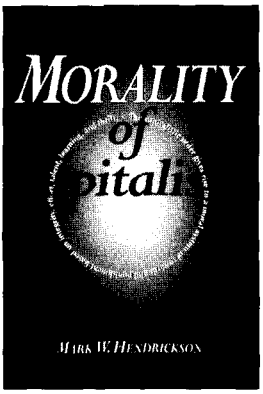

THE MORALITY OF CAPITALISM

Edited by Mark W. Hendrickson
Introduction by Hans F. Sennholz

"Ethical considerations give essential justification to private property in the means of production, to market competition, and the profit system. They grant the capitalistic economic order an important place within a moral order, a place with one system of ethics for rulers and subjects alike—to be honest and peaceful, refraining from any action that would do harm to a fellow man. In fact, the capitalistic order gives rise to a moral system of rewards and punishment based on integrity, effort, talent, learning, and thrift. By lending protection to economic freedom it also becomes the ultimate guarantor of the noneconomic elements of freedom such as the freedom of speech, of religion, the press, and personal behavior."

—HANS F. SENNHOLZ (from the Introduction)

Despite Communism's recent setbacks, the moral arguments of Marxist thought—the reality of class struggle and the need for collective government action due to capitalism's exploitation of the masses—still persist in the Western mind. This collection of essays by powerful writers attacks that "moral" foundation of Marxism. Capitalism, with its emphasis on personal responsibility, respect for an individual's rights, and protection of the fruits of one's labors, makes moral as well as economic sense.

Contributors include: Edmund A. Opitz, John K. Williams, Leonard E. Read, F.A. Hayek, Perry E. Gresham, Garet Garrett, Norman S. Ream, Robert A. Sirico, Paul L. Poirot, Peter J. Hill, Bill Anderson, Hans F. Sennholz, Allan Levite, Ludwig von Mises, Israel M. Kirzner, Steven Yates, and John Attarian.

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PERSPECTIVE

The Welfare State and the News

In the welfare state, news reporting has been taken over by lobbying that masquerades as news. Nearly every news item in magazines and the papers, or on radio and television, except for something truly earth-shaking and unique (a peace agreement between England and Northern Ireland or winners of the Nobel Prize), amounts to featuring some event or situation in which people want something and are asking government to provide it. Editors and broadcast producers appear clearly to be focusing on stories that generate some kind of government action. Indeed, it is a feather in the cap of a news organization if its story provokes some politician to introduce a bill, call a hearing, or promise some kind of reform. If this is related to the demands of some sizable group in our society, success is nearly assured. Pulitzer Prizes tend to be delivered to those who make the "news" do public service work.

Clearly, in a welfare state the prospects for such "news" casting are fabulous. Why should reporters, commentators, or producers ever consider that it could be in the public interest to shut the doors of government to all such demands? Doing so would bar a large percentage of their stories from making a difference. The media might even have to explore going after genuine news, maybe some good news.

But so long as the welfare state is the status quo, we can pretty much count on floods of stories about demands for additional government action from day to day, week to week, month to month, depending on the broadcast schedule of the next program, or the issue date of the next publication.

Except for the editors of the few papers and magazines that champion liberty, none of those in charge will encourage truly critical scrutiny of mainstream political affairs. None will raise such questions as "Why should government deprive the successful of the fruits of their success, or even the fortunate of their good fortune, just because others do not enjoy the same? What justifies such Robin

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Hoodism?" Or who among those who feed off the welfare state so successfully would ever raise the question: "Mr. President, if we spend borrowed money our children will have to be taxed to repay, does this not violate the principle 'No taxation without representation'?"

Would any such journalist raise the question to some politician or bureaucrat: "If in the criminal law it is wrong to punish people unless they have been proven guilty of a crime, why is it right that government regulations may impose enormous economic burdens on people who have done nothing wrong? Isn't this a kind of prior restraint that has no place in a free society?" What about the question: "If the 14th Amendment prohibits the unequal application of the law, why are producers prohibited from discriminating, while consumers can do so with total impunity? And why can government regulate every profession but the press, arts, and clergy—is this not a built-in inequality, a state-sponsored discrimination?"

When news organizations feed off the welfare state so successfully, why would they ever express even the most natural doubts about it as they deal with the leaders of state on *Meet the Press*, *This Week with David Brinkley*, *Face the Nation*, and the rest? Doing so would take some genuine journalistic integrity, the kind many people seem to praise only when observed in foreign reporters who risk life and limb as they challenge their dictators. When nothing but one's cushy existence as a reporter is at stake and no firing squad threatens, the courage to challenge the status quo can be readily surrendered.

—Tibor R. Machan

(Dr. Machan is professor of philosophy at Auburn University.)

Why the Anxiety?

For some time, pundits and columnists have busied themselves pondering a puzzle: although Americans are better off than ever before by various measures, they seem discontented; they worry excessively about what the future will bring.

Populists blame multinational corporations for shifting jobs abroad. Ross Perot hears a "giant sucking sound" that, he claims, arises from jobs being relocated to Mexico, thanks to NAFTA.

Left-liberals blame big companies for downsizing themselves and setting adrift thousands of employees who had anticipated a lifetime of secure employment. Once laid off, these workers are said to be fit for little but flipping hamburgers. Hence the ballyhoo about the disappearance of the middle class.

The facts provide little support for these popular notions. Mexico is not snatching away American jobs wholesale. The gains from trade are mutual, and labor markets are always in flux. As for the demise of the middle class, the claim is sheer hyperbole.

But I too hear a giant sucking sound, which may have to do with the anxieties so many Americans are feeling. It is the sound of governments at every level sucking away our liberties. Day after day, unchecked by so-called "contracts" with America or bogus "revolutions," government grows relentlessly. The Code of Federal Regulations swells, and state and local governments follow suit with new controls of all kinds.

Americans have sound reasons for apprehension. While nearly every country on the planet is turning away from invasive government controls, Americans continue doggedly down the road to serfdom.

—Robert Higgs
Guest Editor

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Consumer Information and the Calculation Debate

by E. C. Pasour, Jr.

Government intervention has been common throughout the world over the past half century, whatever the type of political and economic system. In socialist countries such as the former Soviet Union and its satellites, government assumed primary responsibility for all economic activity, making major decisions about what and how to produce. Piecemeal regulation is widespread even in the United States and other democratic societies. Heavily regulated areas include agriculture, education, employment, medicine and health care, and the environment.

"Market failure" is the stated rationale for the pervasive role of government in piecemeal regulation. In this view, the unfettered market economy is unrivaled in its ability to produce goods and services for private consumption but falls short in producing things for the common good.[1] Thus, according to conventional wisdom, government *should* intervene to improve consumer information and to cope with other problems, including pollution, monopoly, poverty, and unsafe working conditions. The market-failure approach assumes away the problems of information and incentive that hamper all government activity.

The lure of classical socialism has largely disappeared following the breakup of the Soviet Union. There is an emerging consensus that comprehensive central planning is inconsistent with both economic progress and individual liberty. However, the death of the socialist dream has not affected public attitudes about government regulation of particular areas of economic activity.

Using insights from the socialist calculation debate, we can show that information problems are just as important in piecemeal intervention as in comprehensive central planning. The analysis here challenges the common assumption that government can improve on the information provided through markets and other voluntary arrangements. Problems arise in government efforts to supplement information available to consumers through normal market channels.

Government and the Use of Knowledge in Society—An Evolving View

Public attitudes about the appropriate role of government in economic planning have changed dramatically since the end of World War II. During most of the period since 1945, economists throughout the world argued that central planning was indispensable for the development of poor countries.[2] Indeed, according to Nobel Laureate economist Gunnar Myrdal, in the mid-1950s all competent economic development advisers recommended

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central planning as the first condition of progress.[3] This approach presumes that government planners can determine the pattern of production most consistent with consumer preferences and successfully implement the plan.

The rosy view of government's ability to coordinate economic activity through central planning grew out of the economic or socialist calculation debate. The calculation debate among economists, continuing from 1920 until the late 1930s, had to do with the feasibility of socialism. Ludwig von Mises started the debate in an article published in 1920, arguing that socialism was incompatible with rational economic planning.[4] Mises was responding to various socialist theorists who had argued that central planning was superior to the market system in coordinating economic activity.

A fellow Austrian economist, F. A. Hayek, soon joined Mises in arguing that alternatives to a private-property market order cannot succeed. He showed that the structure of production under socialism *cannot* reflect consumer desires effectively because government planners cannot acquire the knowledge necessary for economic calculation.[5] Hayek stressed that the knowledge needed to achieve a rational economic order consists of dispersed bits of knowledge held by individuals. This knowledge is highly specialized: only individuals involved in deciding resource use know the relative importance of the various ends or purposes for which resources might be used. Thus, the crucial problem confronting society is how to use the specialized knowledge of different people in the production of goods and services to satisfy consumers.

The debate inspired attempts by socialists to duplicate the efficiency of markets. Oskar Lange was the best known socialist theorist. In the mid-1930s, he argued that a socialist economy could establish a market-type mechanism that would eliminate the need for private property and market prices. Lange demonstrated that a socialist system could be *more* efficient than a real-world market economy if the central planning board were *given* the necessary information.[6] The required information includes data on available resources, production alternatives, and consumer preferences.

In 1945 Hayek published a classic paper, "The Use of Knowledge in Society." There he showed that while central planning, as proposed by Lange and other socialists, may not be logically contradictory, information problems make it impractical. "To assume all the knowledge to be given to a single mind in the same manner in which we assume it to be given to us as the explaining economists is to assume the problem away and to disregard everything that is important and significant in the real world."[7]

No Workable Substitute for the Market Order

Economic planning in a socialist system must necessarily founder on the rocks of ignorance. First, the "data" necessary to find out the pattern of production that best fits consumer preferences are never "given," as often assumed by planning proponents. Second, and even more important, the central planner cannot obtain the necessary data. Much of the data on available resources, production alternatives, and consumer demand constantly changes as economic conditions change. Thus, decentralization is the only means of coordinating economic activity through which the specialized knowledge of individuals can be taken into account and used promptly. In short, Hayek and Mises showed that in the production and marketing of goods and services the market order has no workable substitute. Without price and profit signals based on private property, there is no way to use resources productively or to preserve a society based on extensive division of labor.

Despite the merits of the Austrians' challenge to collectivism, the socialists won the calculation debate—at least for a time. The Hayek-Mises insights about the uniqueness of the market in generating and communicating information did not find a place in mainstream economic theory. Instead, these insights remained largely unrecognized and were nearly lost in the aftermath of the

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Keynesian revolution that occurred during the late 1930s. Socialists and nonsocialists alike continued to discount the importance of Hayekian information problems until the breakup of the Soviet Union in the early 1990s. In 1967, some 30 years after the publication of his original essay on the theory of socialism, Lange argued that the computer revolution had made the market obsolete!

> Were I to rewrite my essay today my task would be much simpler. My answer to Hayek . . . would be: so what's the trouble? Let us put the simultaneous equations on an electronic computer and we shall obtain the solution in less than a second. The market process . . . appears old-fashioned. Indeed, it may be considered as a computing device of the pre-electronic age.[8]

In 1989 Leonid V. Kantorovich, a Nobel Laureate Soviet economist, echoed Lange's fascination with the use of mathematical optimization techniques, even as the death knell sounded for Soviet collectivism: "I am looking optimistically on the prospects of wide spread of mathematical methods . . . in all-level economic control. It can give us a significant improvement of planning activity, better use of resources, increment of national income and living standards."[9]

Failure to recognize the importance of the market system in generating and using information was not limited to socialist theorists. In the 1989 edition of his famous textbook, *Economics*, American Nobel Laureate economist Paul Samuelson defended the efficiency of socialism, remarking that "the Soviet economy is proof that contrary to what many skeptics had earlier believed, a socialist command economy can function and even thrive."[10]

The crumbling of collectivism has vindicated Hayek and Mises in their contention that information is the Achilles' heel of socialism. Nearly everyone agrees that successful planning is impossible without private property and the associated market prices. Without these signals, as Mises emphasized, no one can calculate costs or determine the most highly valued products.

Ironically, the economic crisis that led to the breakdown of collectivism was directly associated with the revolution in communications technology involving electronic computers, fax machines, and modems. But this revolution in the generation, processing, and transmission of information has increased the relative importance of and dependence on market signals.[11]

Nobel Laureate economist James Buchanan observes that the death of socialism has discredited "politics in the large" in the sense of central planning at the national level but has not reduced the appeal of "politics in the small."[12] Government efforts in the United States to cope with alleged market failure, including inadequate consumer information, reflect the appeal of piecemeal socialism. The economic calculation debate has implications for piecemeal regulation of consumer activity, too.

Problems in Regulating Consumer Information

The efficient coordination of economic activity hinges on the discovery and use of information by individual decision-makers. Individuals seek more information only if the expected benefits exceed the costs. Thus, it would be uneconomic for a person to get complete information, even if it were possible to do so. In the words of Nobel Laureate economist George Stigler, "information costs are the costs of transportation from ignorance to omniscience and seldom can a trader afford to take the entire trip."[13] The most appropriate amount of information will vary from person to person because expectations are subjective. Consequently, government officials have no standard to determine whether consumers have "too little" or "too much" information. Individuals may often regret not having acquired more information before making a decision, but such hindsight regret is beside the point.

The conventional wisdom holds that individuals relying solely on market-based data have inadequate information. But supposing that government intervention can correct this "market failure" is a heroic assumption. It

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assumes that public officials can determine when individuals have "too little" knowledge and that officials then will act in a way that improves welfare. But one has little basis for thinking that individuals will use knowledge more effectively if government intervenes to second-guess market decisions. People acquire different amounts of information because of individual differences in knowledge, risk preference, and so on. Thus, the knowledge problems that plague government efforts to improve on the amount of information provided through markets are similar to those in central planning. Therefore, government efforts to improve consumer knowledge through piecemeal regulation are likely to be futile or counterproductive.

Consider nutritional information. The rationale for government efforts to improve consumers' nutritional knowledge is inadequate response by food manufacturers and consumers to medical evidence showing links between diet and health. Individual consumers face formidable obstacles in obtaining the *desired* amount of information about the nutritional contents of prepared food and food products. It is difficult and costly for food manufacturers to provide information to consumers willing to pay without providing it also to those who haven't paid. This difficulty limits the availability of nutritional information. Moreover, the costs to the individual consumer of obtaining nutritional data on various food products are likely to be prohibitively high.

The "free-rider" incentive also may stymie action by a group of consumers willing to pay for additional information. Consider the problem of supplementing currently available nutritional information through voluntary group action. If it is not feasible to keep the information from those who don't pay, everyone has an incentive to free ride on those who pay. Therefore, one might argue, government should force food manufacturers to provide nutritional information to all consumers. This commonly cited justification for government intervention is based on high transactions costs and the incentive of individuals to free ride. Trouble is, similar problems plague the political process.

Who Decides?

In nutritional information, and in other areas, the relevant question is who is to decide, and on what basis, that consumers are not adequately informed. The fact that individuals appear to have too little information does not necessarily mean that they would benefit from additional information or that government intervention would be beneficial. Information problems are inherent in the political process because of the *separation of power and knowledge*, as revealed in the economic calculation debate. Political decision-makers do not have and cannot find out the relevant costs and benefits of nutritional data to individual consumers.

Perverse incentives also distort actions of political decision-makers because of the *separation of power and responsibility*. In politics, those who make decisions do not bear responsibility for their actions to the same extent as decision-makers in the market. In markets, entrepreneurial decisions depend on perceptions of profit opportunities and only the firms that best anticipate market conditions survive. In contrast, there is no "bottom line" in government, where political decisions replace the discipline of the market.

The market process may appear to provide too little of some goods and services, including information. Market outcomes, however, must be compared with outcomes of the political process. A government agency has an incentive to price its services below cost. Thus, government agencies tend to produce *too much*. For example, information provided by the publicly funded Cooperative Extension Service typically is free to U.S. farmers.[14] The tendency of government agencies to price below cost is no accident, as lower prices lead to more clients, larger budgets, more jobs, and more political influence.

Consider again the example of government attempts to improve consumers' nutrition knowledge. The U.S. Food and Drug Administration (FDA) recently imposed an additional labeling requirement on manufacturers of food products. The FDA now requires that food manufacturers provide nutritional data, including amounts (per serving) of calories,

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fats, cholesterol, carbohydrates, protein, and sodium on product labels. This information presumably enables consumers to make more informed dietary choices. The nutritional labeling mandate ostensibly solves the free-rider and high-transactions-cost problems that hinder consumers' attempts to obtain more nutritional information. However, the political action creates a new class of free riders. The labeling mandate enables those who use the information to benefit at the expense of those who pay and do not use it. It is likely that a minority of consumers benefits from the required (costly) information. Moreover, government action also creates a new class of "forced riders." In the example, forced riders are consumers paying higher prices for food who consider the benefit of the additional information to be less than the cost.

Government efforts to increase public awareness of the links between diet and heart disease or cancer illustrate the difficulties encountered when government intervenes to improve market outcomes. The scientific evidence linking diet to heart disease was well established by the early 1960s. Articles stressing the relationship between diet and heart disease appeared regularly in *Reader's Digest* and the general press. The American Heart Association issued a major public health advisory in 1964. Articles in the popular press on the increased incidence of cancer associated with high-fat diets began to appear in the 1970s. Following this publicity, food manufacturers began promoting their products' fat and cholesterol profiles. Thus, the market responded, as expected, to the increased demand for nutritional information.

Government has played an important role in providing diet-disease information, but these efforts lagged private manufacturers' actions by at least ten years.[15] Moreover, government actually banned food manufacturers' advertisements of their products' fat and cholesterol profiles in the 1960s. Although the ban was lifted in 1973, government did not allow manufacturers to explain the health reasons to be concerned with fat and cholesterol! The policy prohibited any claim that directly linked a dietary component such as fat or cholesterol to disease risks. Government regulators argued that such claims were inherently misleading because diet-disease issues were too complex for advertisers to deal with.[16]

What is the lesson from government's attempt to correct the alleged failure of the market to provide consumers adequate nutritional information? Implementation problems stymie government planners' attempts to improve consumers' dietary knowledge. These problems are even more formidable than the information problem faced by the individual. In short, when government intervened to improve nutrition information, government failure appears to have been worse than market failure—as it is generally.[17] Thus, it is unwise to concede monopoly power to government in the provision of nutrition information.

Implications and Challenges

The primary challenge in achieving a productive economy is to overcome the knowledge problem created by dispersed information. Widely held information can be most effectively used through the discovery process of a decentralized private-property market system. Hayek stressed that because much of the information is highly specialized to time and place, the "man on the spot" makes the best decisions.[18] The explosion in communications technology heightens the advantage of decentralization. Consider the ongoing revolution in the transmission of information in industrial societies. The use of fax machines, computers, and modems has significantly eroded the effects of government's traditional monopoly of first-class mail.

It is important to distinguish between knowledge and information. Individual action is based on knowledge, which consists of information plus judgment.[19] Knowledge is always scarce, but information constantly bombards people in industrialized societies. Print and electronic information sources include newspapers and magazines, radio, television and, increasingly, E-mail. Thus, the individual decision-maker must assess the accuracy and relevance of new information to

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decide whether it effectively contributes to knowledge useful in decision-making. Both the current knowledge base and the cost and benefit of getting additional information are subjective and vary from person to person. Consequently, any attempt by government to second-guess a consumer's decision concerning the most appropriate amount of information is problematic.

Government's attempts to correct perceived problems in consumers' nutritional choices through a mandated food-labeling requirement highlights the distinction between information and knowledge useful in decision-making. Information provided through the FDA-mandated nutrition profile on labels of food products has little significance for consumers lacking a stock of nutrition knowledge. Consider a food product that has 20 grams of fat in a standard serving that contains 360 calories. The food label would show that 50 percent of the product's calories are from fat. Without a stock of nutrition knowledge, however, the consumer would not know whether the indicated fat content is high or low. Thus, the nutritional data standing alone, although costly to provide, has little meaning for the typical consumer.

In compensating for consumers' lack of nutritional knowledge, the FDA requires that food manufacturers also provide information on "recommended daily allowances." The FDA dietary guidelines, for example, recommend that fat consumption be no more than 30 percent of total energy intake. However, many nutrition experts believe that this recommendation constitutes misinformation. The medical evidence suggests that a much lower rate of fat consumption would be safer.[20] The government's recommendations apparently arose from what authorities setting the guidelines thought the public would accept instead of epidemiological evidence! If so, the legally required nutritional data are misleading consumers who would reduce fat consumption further if informed of the lower risks associated with a lower-fat diet. The tentative nature of knowledge on diet-disease issues makes futile all attempts to regulate nutrition information in the public interest. Furthermore, the FDA nutrition-labeling example illustrates the pitfalls of conceding monopoly power to government in regulating information.

What is the alternative? When quality has aspects that are hard for consumers to detect, a market for information is likely to arise in the absence of government regulation.[21] For example, Best Western is a private regulatory agency for motels that enables travelers to identify easily the motels that meet the quality standards specified by Best Western. Similarly, Underwriters Laboratories establishes standards for electrical equipment and then tests it to see if it meets those standards. The use of brand names is another market contribution to the efficient use of knowledge in society. Finally, some firms independently test and evaluate products and report results to their subscribers in publications such as *Consumer Reports*. Market-generated information undoubtedly would be more common were it not for the current widespread government regulation. Government regulatory activity, as shown by the food-labeling example, may both crowd out and legally restrict privately produced consumer information.

Conclusions

Individuals' actions necessarily rest on imperfect knowledge, and people often appear to act without sufficient information. However, intractable problems of knowledge and incentives impede government officials' attempts to improve on market-generated knowledge. Knowledge, consisting of information plus judgment, is highly subjective. Therefore, the "optimal" amount of information varies from person to person, depending on the expected costs and benefits. It should not be surprising that government attempts to improve consumer knowledge frequently are disappointing. Hayek labels as the "fatal conceit" the idea that human beings can determine what is best for society and use the political process to shape the world according to their wishes.[22]

The economic calculation debate showed that central planners cannot overcome the knowledge problem. Knowledge is highly specialized to time and place and much of it is

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unavailable to the planner. Thus, successful planning hinges on private property and the information and incentives conveyed by market prices. Moreover, knowledge problems encountered in piecemeal intervention resemble those that stymie central planning. Thus, the implications of the calculation debate are just as important for politics in the small (piecemeal regulation) as for politics in the large (socialism). Recent dramatic advances in technology heighten the importance of keeping decisions decentralized. Consequently, central control of information, whatever the application, in a way that promotes rather than impedes effective decision-making is highly dubious.

Government cannot determine the most appropriate amount of information. Thus, the use of knowledge in society is unlikely to be improved by government action that overrides outcomes of decentralized information markets. Government can, however, encourage the development of private institutional arrangements that enable decision-makers to obtain the information necessary to act in their own interests. Brand names and private regulatory agencies like Best Western, Underwriters Laboratories, and *Consumer Reports* show that markets can, and do, cope with information problems. Why are such institutions not more widespread? Privately supplied consumer information, as shown by the food-labeling example, is not more common because government regulation is so widespread. It will be a major challenge in the twenty-first century, as during the twentieth, to foster private institutions for providing consumer information. □

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THE FREEMAN
IDEAS ON LIBERTY

The Market Didn't Do It

by Dwight R. Lee

Critics of the marketplace are often both appallingly ignorant of why markets are so valuable, and anxious to believe that markets possess powers that they simply don't possess. The marketplace is an extraordinary social institution, but if it caused as many problems as its critics claim, it would be even more extraordinary than it is. Few problems have not been blamed, either directly or indirectly, on the neglect, the callousness, or the greed of the market. People tend to discuss the market as if it had a will of its own, made its own choices, and generated its own outcomes. It doesn't. As James M. Buchanan states, "Choices are made only by humans rather than by personified abstractions such as 'the market.' "[1] By arguing that "the market causes poverty" or that "the market lacks compassion," one misunderstands the important role the market plays, and encourages policy recommendations that aggravate rather than solve problems.

As F. A. Hayek informed us in 1945, the advantage of the market is that it allows us to communicate with each other in a way that motivates each of us to consider the interests of others. "We must look at the price system as . . . a mechanism for communicating information if we want to understand its real function. . . . The most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action. . . . It is more than a metaphor to describe the price system as . . . a system of telecommunication."[2] So when people blame the market because baseball players earn more than teachers or because more is spent on bowling than on ballet (as if these were serious problems), they need to be told, "the market didn't do it." These critics are really blaming other people for having and communicating objectionable preferences. When people call for government to solve the problems caused by the market, they are commonly calling for government to censor those with whom they disagree.

Of course, the market often seems responsible for problems more serious than differences in preferences. The market is commonly blamed for layoffs and bankruptcies that shatter the hopes and disrupt the lives of diligent workers who play by the rules. But again, such problems result from people's communicating with one another in ways that motivate a cooperative response. Layoffs and bankruptcies result when people are allowed to inform suppliers that the resources used to produce some products would create more value if used to produce other products. This information is communicated through prices, profits, and losses—forms of communication that get attention and motivate appropriate action.

Of course, no one enjoys being told that consumers would prefer that he or she go out of business or get a different job. Those who receive such market messages are understandably upset with what is easily seen as the ruthlessness of the market. But even they are better off living in an economy in which both

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good news and bad news can be transmitted through market communication. No matter how unpleasant the news, blaming it on the market is misguided. And using the bad news conveyed through the market as justification to impose political restrictions on markets is even worse.

Blaming the Messenger

If you got a call informing you that a good friend had died, you would not blame the telephone system for your friend's death. And certainly no one would argue that the friend's death could have been prevented if only restrictions had been imposed on telephone communication. But it makes as much sense to impose restrictions on telephone calls to prevent death as it does to impose restrictions on the market to prevent bankruptcy and unemployment.

Unfortunately, the market and the telephone system differ in ways that explain why people clamor for so many harmful restrictions on market communication. In the case of bad economic news communicated through the market, one group can use government to distort the message so as to deflect the bad news and improve its situation at the expense of others. For example, a firm about to go bankrupt can insulate itself against the negative communication of consumers by securing a government subsidy. Consumers, having less after-tax income to spend, now signal that other, more productive firms should lay off workers or go bankrupt. To continue the analogy, imagine that by imposing restrictions on telephone communication you could directly prevent the death of your friend (and receive all the credit that goes with such a noble accomplishment) by causing the deaths of two other people in such a way that no one would connect those two deaths with your actions.

Poverty is another item of bad news commonly blamed on the market. But this problem too would be worse than it is if it were not for the efficiency of market communication. People are poor not because of the market, but because they have little of value to communicate through the market. Blaming poverty on the market is analogous to blaming freedom of the press for the inability of some people to write well. No serious person would argue that the best way to help the inarticulate would be by discouraging people from communicating, or by restricting their ability to do so. Unfortunately, this approach is equivalent to what many government policies do in the name of helping the poor. Programs that provide transfers to people earning less than some specified income certainly discourage the type of market communication involved in developing and exercising productive skills. The minimum-wage law, union restrictions (sanctioned by government), and the Davis-Bacon Act prevent those lacking productive skills from communicating their desire to develop those skills by working at wages agreeable to both them and employers. The poor would be better served if we reduced the restrictions on market communication instead of blaming, and further restricting, the market for the message of poverty it allows the poor to deliver.

The Market and the Environment

Another common complaint against the market is that it causes excessive pollution. Again, the problem isn't the market, but the lack of markets and the need for more market communication. Markets are said to cause excessive pollution because negative externalities are created by some market transactions. When I purchase gasoline, for example, I pay the oil company for the cost of obtaining, shipping, and refining the petroleum, and then distributing it to my local gas station. But I pay nothing for the cost I impose on those who are exposed to the pollution generated by my use of gasoline. Therefore, gasoline consumption and air pollution are excessive. Such externalities are used to justify government action to correct a "market failure." In fact, most market failures are testimonials to the success of existing markets at giving a clear voice to people. The best policy approach would emphasize extending the benefits of market communication instead of distorting the communica-

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tion occurring through existing, successful markets.

Pollution externalities result when people are effectively communicating the value they place on products through existing markets but, because we have no markets for the use of airsheds and waterways, cannot communicate the value they place on the environmental amenities lost as a consequence of producing and consuming those products. Unfortunately, government tries to correct excessive pollution by imposing restrictions on markets that are working well. The government approach to environmental protection has been to mute, or censor, market communication with bureaucratic restrictions on a host of business practices. Many of these restrictions are intended more to protect special interests than to protect the environment. These restrictions on market communication, even when they have reduced pollution, are one-size-fits-all mandates that insure pollution is reduced at far greater cost than necessary. A better approach is to expand the communication network by creating markets for the use of the environment with policies that emphasize property rights and such market-based approaches as transferable pollution permits.[3] I acknowledge that some of these approaches create a less-than-ideal market and are subject to manipulation by organized political interests. But by enhancing communication, rather than stifling it, a market-based pollution control approach is superior to the existing command-and-control approach, which appeals to those who believe that the market causes pollution.

The market is the world's most effective means for moderating the problems of scarcity by allowing people to communicate and cooperate with one another. Because it necessarily transmits a steady stream of information about scarcity, much market information will be seen as bad news. The temptation is to blame the communication system for bad news, and this temptation is exploited by interest groups constantly seeking justifications for manipulating information and censoring those with opposing views. So problems are worse than they need to be, because we restrict the market communication that is essential in responding appropriately to the inevitable consequences of scarcity. Until people understand that "the market didn't do it" every time a problem is communicated through the marketplace, we will continue to be taken in by self-serving interest groups espousing policy recommendations harmful to the general public. □

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Making the Case for Liberty Stick

Rolling back an intrusive, overweening government is no simple task. A remarkably tenacious creature, it spares no expense as it struggles to retain its grip on society. It is greatly aided in that fight by many of those who rely on transfer payments for all or part of their livelihood. Meanwhile, the liberty of all the people hangs in the balance.

As veteran readers of *The Freeman* know, ideas are what matter most. Pointing fingers, naming names, and unmasking duplicitous politicians can never by themselves win the battle for liberty. Indeed, such tactics can be counterproductive when they lull people into thinking that changing faces in government is enough to change results. Ideas must change, and if they do, the faces will take care of themselves.

For some, focusing on ideas seems to be an unbearably long-term strategy. They yearn for the magic button that, when pressed, will make things better. They think everything depends on who gets into office in the next election. They want to win elections now, so they put their money and time into yard signs and bumper stickers instead of books, articles, seminars, and other educational tools.

These impatient friends fail to understand that politicians rarely operate outside a box framed by public opinion which, translated, means the demands and expectations of those politicians' particular constituencies. One wealthy patron of hundreds of candidates over the years recently expressed this frustration to me: "I wish I could do something so that once the people I support get elected I won't have to keep calling them to find out why they cast so many bad votes and make so many wrong decisions." I told him that the one most effective thing he could do is to invest *in ideas.* Give someone a book, I told him, not a bumper sticker.

What better evidence do we have of the importance of education than the experience of the 104th Congress? The Republicans ousted the Democrats for control of both houses, for the first time in 40 years. Most of the freshman class elected in that tumultuous year of 1994 pledged themselves to shrinking the federal government and "turning power back to the states and to the people."

But by early 1996, enthusiasm gave way to disappointment. Government had been nicked here, shaved a little there, but the "revolution" had fizzled. The more thoughtful among the revolutionaries didn't lay the blame on the president or the media; they knew they had been thwarted by the "sunshine patriots" back home—people who buy the rhetoric of less government but run in the other direction at the prospect of actually achieving the real thing. This suggests that much work remains to be done on the idea front. People must deepen their understanding of liberty so they'll stick with it when the going gets rough.

Making the case for liberty stick, so that it isn't simply some short-term rhetorical exercise, is a multi-faceted task. It draws support from a

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range of intellectual disciplines—economics, political science, sociology, and history, to name a few. It requires a nurturing of many personal virtues—self-reliance, enterprise, respect for others and their property, moral inspiration, and optimism about what free people can accomplish. It encourages a patient, long-term perspective over the instant gratification of short-term obsessions. To this list I add one more ingredient that is worthy of our increased attention—*demystifying government.*

Too many battles are lost to statists because of a misplaced and hard-to-shake faith in government itself. For all its endless failures, now more widely perceived than at any time in decades, government is still regarded as real and tangible while free-market alternatives are often thought of as nebulous and imaginary.

For example, take Social Security. Most Americans now acknowledge its inherent flaws and impending debacle. Suggest ending Social Security and making retirement security a purely personal and market-based responsibility and many of those same people wince in fear. "Who would take care of Grandma?" they ask. Of course, they want you to answer with a list of names and addresses; anything less will leave them in grudging acceptance of the status quo.

Far too many Americans think that if government provides education, it may do so ineffectively but at least some basic level of schooling will exist. Likewise, they think that if government gets into the low-income housing business, the result may be scandal-ridden but at least the poor will be housed.

It constantly amazes me that defenders of the free market are expected to offer certainty and perfection while government has only to make promises and express good intentions. Many times, for instance, I've heard people say, "A free market in education is a bad idea because some child somewhere might fall through the cracks," even though in today's government schools, *millions of* children are falling through the cracks every day.

Our task as friends of the free market is to reverse this state of affairs. We must portray the promises of government and *politicized society* for what they are—nebulous and imaginary. We must explain the benefits of free markets and *civil society* for precisely what they are—real and tangible. After all, isn't the evidence on these points overwhelming? Where do oppressed people flee when given the chance—to free countries or socialist countries? Where do they conquer more poverty by producing more goods that sustain life the longest and at the highest levels? In which environment do people attain the greatest satisfaction and self-fulfillment—an environment of dependency and sloth, or one of self-reliance and effort? Americans should be embarrassed even to ask such questions.

The Myth of the Magical Bureaucracy, a recent booklet co-authored by Congressmen Pete Hoekstra, Mark Neumann, Sam Brownback, and Mark Souder, demystifies the federal government with a goldmine of facts and figures. For example, Americans have come to assume that since Washington became involved in education in the mid-1960s, education has been advanced; efforts to abolish the Department of Education and its 760 separate programs have been met with stiff resistance.

The facts, however, are these: Educational performance in the United States has been in steady decline since the mid-1960s. Average SAT scores have dropped 35 points since 1972. Sixty-six percent of 17-year-olds do not read at a proficient level. U.S. students scored worse in math than all other large countries except Spain. And 30 percent of all college freshmen must take remedial classes.

For another example, consider the AmeriCorps program, which propagates the myth that "magical bureaucrats" can create a renewed volunteer spirit in America. The facts are these: AmeriCorps displaces true volunteerism by paying people with tax money to "do good." Designed just three years ago to cost taxpayers "only" $16,000 per "volunteer," it now costs between $25,797 and $31,017 per volunteer. Worse yet, only $14,000 of that money goes to the actual "volunteer," while the remaining $11,000 to $17,000 goes to overhead and administration!

Making the case for liberty stick will take a lot more of this sort of compelling analysis, marketed in an articulate fashion. The Emperor has no clothes; we merely have to encourage people to take their blinders off and see reality. □

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Free-Market Economics in a Phone Booth

by Russell Shannon

In *The Wealth of Nations*, published 220 years ago, Adam Smith argued that the interests of consumers would be better served by an open system of free markets than by the regulated regime of mercantilism that prevailed. Competition, Smith maintained, was more efficient than monopoly. Could anyone oppose Smith's policy prescription?

We have before us now a simple, straightforward example of Smith's point, which also shows why some people oppose his principles. An article in the *Washington Post National Weekly Edition* dealing with the breaking up of AT&T, the giant telephone company that was once a monopoly protected by the federal government, includes some statistics obtained from the Federal Communications Commission, AT&T, and the U.S. Labor Department that are marvelously pertinent to Smith's thesis.

In the early 1980s, in part as a result of rapid technological improvements (such as fiber optics), not only was AT&T forced by judicial decree to break up into several regional components (the so-called "Baby Bells"), but also other firms were allowed to compete with AT&T for long-distance telephone service. As everyone who has seen the ensuing barrage of TV commercials surely knows, new firms did enter the market—with a vengeance. What has been the result of replacing monopoly with competition in long-distance telephone service?

First, the average cost of long-distance service has dropped dramatically, from about 50 cents per interstate minute in 1982 to less than 20 cents in 1994, a decline of more than 60 percent. Second, interstate consumer telephone use has almost tripled since 1982. (In the jargon of economists, it could be said that consumers' demand for long-distance telephone service was "elastic," causing the total amount of money spent on such service to go up when the price fell.)

Of course, AT&T has not been the sole recipient of all this new demand for phone service, and as a result has been engaging in drastic downsizing and reorganization. So a third result is that many of its employees have lost their jobs. Indeed, this impact was the focus of the *Post*'s article, "Ma Bell's Changing Tone." The subtitle told the whole story: "In a reordered corporate world, it's employees who pay the toll." The article gave a detailed account of how AT&T had changed from a company that provided a virtual assurance of lifetime jobs when it was a protected monopoly to a firm in which a worker's future is far more precarious.

As the *Post* article notes, because customers no longer felt loyal to AT&T (nor did investors, who were unhappy with its profit performance), why should AT&T be loyal to

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its employees? Since the company was broken up, employment has dropped by about 60 percent, from nearly one million employees in the early 1980s to about 400,000 today.

But to focus on this fact is to miss the doughnut for the hole. The *Post* data also reveal a fourth effect of this movement to freer markets: employment in the communications industry as a whole has remained high; it peaked at about 1.6 million in the early 1980s and is around 1.5 million today. So breaking up AT&T did not destroy jobs—it relocated them.

The hardships imposed on employees who must suddenly seek new work should not be overlooked. The costs of retraining and relocation can be significant, and crippling. Political power is often used to alleviate such woes; after all, that is the argument behind unemployment compensation.

But surely it is equally important to note that, when competition replaces monopoly, the costs imposed on the few are vastly offset by the benefits that accrue to the many.

A very similar story has been told by the economist Russell D. Roberts in his splendid little book *The Choice: A Fable of Free Trade and Protectionism.* Roberts explains that opening up to free trade may destroy some domestic jobs in the present, but it will create vast new opportunities for our children in the future.

Of course, the world-wide movements toward privatization, given initial impetus when Margaret Thatcher was Prime Minister of the United Kingdom, and *perestroika,* the decentralization of economic activity proposed (but not actually pursued) by the Soviet leader Mikhail Gorbachev, are both ongoing efforts toward creating more competitive economies. Communism and socialism differ from mercantilism in that communist governments directly own industries, while mercantilist governments simply regulate them. But the practical economic effects are largely the same; stagnation and low incomes are the prices people pay for such extensive intervention in economic activity.

Our federal government no longer protects AT&T's long-distance monopoly. The benefits of the new competition to telephone users are dramatic—and should be clear to all who care to look.

Yet much resistance to free enterprise remains, both in the United States and abroad. Those of us who live and work in this country today have benefited enormously from the free markets of the past; our standard of living is substantially higher because our ancestors paid the price, accepting less job security in exchange for the expectation of a rising standard of living. Don't we owe it to future generations to carry on this tradition? □

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Perspectives on Capitalism and Freedom

by Edward W. Younkins

Capitalism and freedom are inseparable. In our society we believe that human beings, merely by virtue of being human, possess the capacity to exercise freedom and the right to do so. Each person should be free to own property, choose a job and a career, worship, speak, move freely within the society and to other societies, promote and protect one's self-interest, contract, compete, create, innovate, trade, and associate with others.

Those of us who favor freedom and free markets are a diverse lot. Our worldviews differ, too. To find common ground, let us briefly consider in turn the libertarian, Judeo-Christian, and Objectivist perspectives on the nature of capitalism and its relationship to liberty.

The Libertarian Perspective

Libertarians elevate personal freedom to the highest good—as an end to be achieved. Freedom is viewed as prerequisite to, and integral with, the achievement of any of man's goals. Libertarians defend each person's right to be protected against all forms of external aggression initiated by the state or by private individuals. A basic principle of libertarianism is that individuals have the right to live life as they choose, as long as their actions do not constitute an aggression against the freedom of others.

This nonaggression or noninitiation-of-force principle is related to the libertarian idea of self-ownership. Self-ownership means that one's own decisions about what to do with one's life, property, body, energies, and speech are the decisions that count. Because individuals are equal, not only does a person own himself, every other person owns himself as well.

The self-ownership principle creates a zone of privacy and freedom of action for each individual. When dealing with others each person should respect them as equals in moral status and human dignity who have the right and responsibility to make their own decisions regarding their own life, property, body, energies, and speech.

Libertarians reject the notion that people need a guardian to protect them from themselves or to tell them what is good and bad. The state should therefore confine itself to the minimum necessary to protect individuals in the way they choose to pursue happiness. The proper state is therefore neutral with respect to its commitment to one or another conception of happiness or the good life. The role of the state should be limited to providing the freedom that allows individuals to pursue happiness or the good that each defines for himself.[1]

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The Judeo-Christian Perspective

According to this worldview, God, the ultimate moral authority, created man. Each person is free, self-responsible, and accountable before the Creator. Between a man and God, the appropriate relationship may be viewed as one of agent, steward, or trustee to owner. Each person has a God-given responsibility to answer to Him for his choices including the uses he makes of his individual human potential and his possessions held temporarily as a steward of God.

Only when a man has choice and its inherent responsibility can he be moral. Choice (free will) is the foundation of virtue. Morality involves choice and the use of reason in making that choice. Freedom, a gift from God, does not mean freedom from the law or license to do whatever is not forbidden. Real freedom is not the power to do whatever we like but, rather, to choose to do what we ought to do.

The purpose of freedom is not freedom for its own sake but for the purpose of serving God through self-actualization and the promotion of human flourishing and the common good. Freedom is simply the means toward a higher end and should not be viewed as an end in itself. When one has freedom, the important choices become how to order one's life, what values to pursue, and which virtues to practice.

Each person should be politically free to choose and pursue his own values and should allow others to choose and pursue their own values. Man is endowed by God with inalienable rights, the exercise of which is strictly a matter between the individual and the Creator, until he trespasses on the rights of another person. To force another to adhere to my value judgments is to deny him his right and responsibility to answer to God directly for the choices he makes.

The underlying idea is that each individual should be able to encounter God without the mediation of any other person, group, or nation. When self-responsibility before God is viewed as prior to, and determining of, political philosophies and systems, it follows that government should be limited to protecting this relationship between man and the Creator. The state is simply a man-made means of securing liberty and justice for all men alike. The legitimate aim of government is to provide the social and political conditions that protect each citizen's right to individual action.

From the Judeo-Christian perspective, governmental authorities are the civil distributors of God's higher law. There is a realm of natural law, over and above positive man-made law, involving unwritten and unalterable laws of God. Natural law, the ultimate source of right and wrong, is timeless and well beyond the political realm. The idea of governmental restraints rests on the premise that a natural law higher than that of the state limits and qualifies the power of the state. Capitalism properly emerges from such a political system, is consistent with Judeo-Christian values, and involves the voluntary exchange of goods and services between free and self-responsible persons.[2]

The Objectivist Perspective

Objectivism, the philosophy of Ayn Rand and her followers, contends that the universe has existed eternally and repudiates the idea of its creation by a rational, omnipotent God. For Objectivists, the idea of God is offensive and humiliating to man, because it denies that man is the highest being in the world. The Objectivist position is that without God it is up to man alone to pursue his own happiness and create his own values. Freedom for Objectivists comports with the non-existence of the Creator.

The Randian view is that reality is objective, absolute, and comprehensible, and that man is a rational being who relies upon his reason as his only means to obtain objectively valid knowledge and as his basic tool of survival. The concept of value presupposes an entity capable of acting to attain a goal in the face of an alternative. The most basic alternative in the world is existence versus non-existence. Life makes the concept of "value" meaningful. An organism's life is its standard of value. Whatever furthers its life is good, whatever

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threatens it is evil. The nature of living persons is to determine for themselves what they ought to do.

Man's life is therefore identified as the proper standard of man's value, and morality is identified as the principles defining the actions necessary to maintain life as a man. If life as a man is one's purpose, he has the right to live as a rational being. To live, man must think, act, and create the values his life requires. In other words, since a man's life is sustained through thought and action, it follows that the individual must have the right to think and act and to keep the product of his thinking and acting (the right to life, liberty, and property). As men are creatures who think and act according to principle, a doctrine of rights is intended to ensure that an individual's choice to live by those principles is not violated by other human beings. All individuals possess the same rights to freely pursue their own goals. These rights are innate and can be logically derived from man's nature and needs—the state is not involved in the creation of rights and exists merely to protect an individual's natural rights. Because force is the means by which one's rights are violated, it follows that freedom is a fundamental social good. The role of government is to protect man's natural rights, through the use of force but only in retaliation and only against those who initiate its use.[3]

Metaphysical Agreement Is Not Required

Capitalism may be defined as a system of voluntary relationships within a legal framework that protects individuals' rights against force, fraud, theft, and contract violations. Advocates of capitalism differ in their arguments for a social system that maximizes individual freedom and in their views with respect to the nature of man and the universe. Underlying these separate views, however, is the need for freedom of the individual to choose how he wants to integrate himself into society. All agree that:

1. Freedom is the natural condition of the individual—each person from birth has the ability to think his own thoughts and control his own energies in his efforts to act according to these thoughts.
2. Individuals are free to initiate their own purposive action when they are free from man-made restraints—coercion by other individuals, groups of people, or the government; freedom is not the ability to get what one desires—other non-man-made obstacles such as lack of ability, intelligence or resources may result in one's failure to attain his desires.
3. Freedom is a necessary but not a sufficient condition for one's happiness.

It is not necessary to first reach metaphysical or religious agreement to agree on the desirability of a system in which individuals do not use violence or fraud to injure others or to deprive others of their legitimately held possessions. Various proponents of capitalism therefore agree that the proper role of the state is limited to that of protector of property and punisher of those who rob and cheat others. □

1. Exemplars of the libertarian perspective include Murray N. Rothbard, *For a New Liberty: The Libertarian Manifesto* (New York: Collier Books, 1978) and Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, Inc., 1974).

2. Models for those who work within this worldview include Edmund A. Opitz, *Religion and Capitalism: Allies, Not Enemies* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1993 [1970]), Ronald H. Nash, *Poverty and Wealth* (Richardson, Tex.: Probe Books, 1986), and Michael Novak, *The Spirit of Democratic Capitalism* (New York: Simon and Schuster, 1982).

3. See Ayn Rand, *Atlas Shrugged* (New York: Random House, 1957) and Leonard Peikoff, *Objectivism: The Philosophy of Ayn Rand* (New York: Dutton, 1991).

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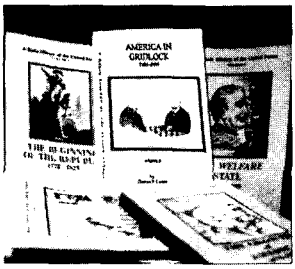

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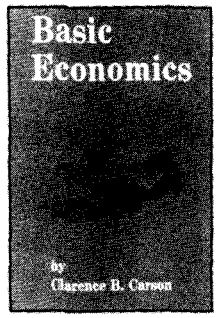

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THE FREEMAN
IDEAS ON LIBERTY

Frank Chodorov: Champion of Liberty

by Aaron Steelman

December 28, 1996, marks the thirtieth anniversary of the death of Frank Chodorov, one of the giants of the American Old Right. It seems appropriate to look back at his life and career, not only to pay homage, but also to rediscover some of the fundamental insights he brought to the fore in his many books, articles, and speeches.

Frank Chodorov had a profound influence on the postwar American Right. Murray N. Rothbard, William F. Buckley Jr., James J. Martin, and many other exponents of the free market have cited Chodorov's work as vital to the formation of their worldviews. Indeed, Buckley once said, "It is quite unlikely that I should have pursued a career as a writer but for the encouragement he gave me just after I graduated from Yale."[1]

Born in New York City in 1887, Chodorov graduated from Columbia University in 1907, and spent the next 30 years working in a variety of jobs, including a stint as an advertising representative and running a clothing factory. "From four to seven years was about all I could take of any occupation throughout my life. I went at each job I undertook with verve, mastered it and when it became routine I lost interest and went looking for something else," Chodorov wrote in his 1962 autobiography, *Out of Step*.[2]

Besides working in various fields, Chodorov read widely in the literature of liberty, and was particularly impressed by the work of Henry David Thoreau, Albert Jay Nock, and Henry George. By the time he was offered, and accepted, the directorship of the Henry George School of Social Science in 1937, he counted himself firmly within the classical liberal tradition.

For the first time—at the age of 50—his position afforded him an opportunity to write and speak widely on the issues of the day and to spread the anti-statist gospel. He and his students started a school publication, *The Freeman*, borrowing the name from the then-defunct journal Nock had edited in the 1920s. In its pages Chodorov found his ultimate calling: journalism with an intensely personal, individualist flair.

Chodorov pulled no punches in his many articles for *The Freeman*. He viewed the state as the greatest threat to individual liberty and human happiness. In the tradition of Cobden, Bright, and Nock, he did not limit his disdain for the use of state power to domestic actions; he feared the state's ability to conscript its citizens and use them to wage war as much as, if not more than, he did its ability to control the economy. This intellectual consistency eventually gained Chodorov many devoted followers but, for the time being, it attracted some important opponents. "In *The Freeman*

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I took delight in attacking the New Deal and Mr. Roosevelt, mainly on economic grounds. That went well until Mr. Roosevelt started preparing the country for war, in 1939. Prudence should have prompted me to avoid the war issue, but prudence was never one of my virtues, and I continued to hammer away at the war measures right up to Pearl Harbor."[3] The school's board regarded his principled and steadfast opposition to American involvement in the war as too controversial and too frightening to potential donors and, therefore, relieved Chodorov of his duties in 1942.

Fulfillment of a Dream

Following his dismissal, Chodorov looked for a new medium for spreading his ideas. The result was his creation of *analysis,* which he later called "the most gratifying venture of my life." An unpretentious four-page broadsheet published from 1944 to 1951, *analysis* was hard-hitting and uncompromising, just like *The Freeman.* Unlike *The Freeman,* however, *analysis* did not actively solicit articles from outside writers; nearly every issue was written entirely by Chodorov.

In an early promotional letter to would-be subscribers, Chodorov summed up his paper's editorial position concisely and accurately:

> . . . *analysis* . . . stands for free trade, free land and the unrestricted employment of capital and labor. Its economics stem from Adam Smith and Henry George.
>
> . . . *analysis* goes along with Albert Jay Nock in asserting that the State is our enemy, that its administrators and beneficiaries are a "professional criminal class," and interprets events accordingly. It is radical, not reformist.
>
> In short, *analysis* looks at the current scene through the eyeglass of historic liberalism, unashamedly accepting the doctrine of natural rights, proclaims the dignity of the individual and denounces all forms of Statism as human slavery.[4]

In issue after issue of analysis, Chodorov kept the flame of the anti-statist, antiwar cause burning during some of classical liberalism's darkest nights. He approached myriad topics from the same perspective: voluntary, peaceful actions are moral and productive and should be encouraged; coercive actions are immoral and should be condemned. As both an anti-statist committed to individual liberty as a great moral ideal and a social scientist examining past events objectively and empirically, Chodorov was a formidable and prescient critic.

The "Ratchet Effect" Theory

For example, in the 1940s Chodorov hit upon the "ratchet effect" theory to explain the growth of government, thereby setting the stage for some of the most incisive and probing work by classical liberals in the decades to come. In the August 1950 issue of *analysis*, he wrote: "All wars come to an end, at least temporarily. But the authority acquired by the state hangs on; political power never abdicates. Note how the 'emergency' taxes of World War II have hardened into permanent fiscal policy. While a few of the more irritating war agencies were dropped, others were enlarged, under various pretexts, and the sum total is more intervention and more interveners than we suffered before 1939."[5]

In a pamphlet distributed by *Human Events,* he struck a similar chord, using the ratchet effect theory to explain the rise of direct taxation in the United States:

> When war or the need of ameliorating mass poverty strains the purse of the state to the limit, and further indirect impositions are impossible or threaten social unrest, the opposition must give way. The state never relinquishes entirely the prerogatives it acquires during an "emergency," and so, after a series of wars and depressions direct taxation became a fixture of our fiscal policy, and those upon whom it falls must content themselves to whittling down the levies or trying to transfer them from shoulder to shoulder.[6]

On education, Chodorov was ahead of his time, developing a radical critique of government schooling long before the so-called "school choice" or "voucher" movement got

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on its feet many years later. To Chodorov, it was no surprise that students were receiving subpar educations at government schools. As he saw it, the purpose of the public school was not to educate children, but to turn them into "good citizens"—schooled in the ways of the democratic system and taught that "they were the government" despite the obvious absurdity of such a claim. By controlling the schools, the state could control, to a large degree, the minds of future generations, thereby limiting the possibility of dissent.

In Chodorov's mind, the only solution to the education problem was to separate schooling completely from politics: "If we would reform our education system basically, we must desocialize it. We must put it back where it belongs, in the hands of parents. Theirs is the responsibility for the breeding of children, and theirs is the responsibility for the upbringing. The first error of public schooling is the shifting of this responsibility, the transformation of the children of men into wards of the state."[7]

Editing *analysis* brought great joy to Chodorov, but the journal was financially shaky. At its peak in 1951, it had no more than 4,000 subscribers. Edmund Opitz recalls that Chodorov was pouring so much of his own money into his enterprise that he was sustaining himself on one meal a day.[8] In 1951 *analysis* was merged with *Human Events,* a Washington-based publication founded in 1944 by Felix Morley, Frank Hanighen, and Henry Regnery. Chodorov became an associate editor at *Human Events* and stayed there until 1954, when Leonard Read chose him to edit a revamped version of *The Freeman,* which Irvington Press (a subsidiary of FEE) had recently purchased.

The Later Years

By the early 1950s, Chodorov was already well established as an individualist writer of the highest quality. In his view, the movement he had helped to preserve and shape in the 1940s was not "conservative"; it was "individualist."[9] He was disturbed by the growing influence of a system of thought he viewed as fundamentally majoritarian in nature. The "new" conservatism of Russell Kirk, Walter Berns, and Harry Jaffa did not in any way resemble the historic liberalism that Chodorov and other prominent Old Right figures held dear. This new strain of thought held that unbridled individualism, not an omnipotent federal state, posed the greatest threat to the social order. Moreover, Jaffa and company believed that the Soviet Union placed the United States in imminent danger and that decisive federal action was needed to thwart Soviet expansion.

Over the next ten years, Chodorov spent as much time trying to check this new brand of conservatism as he did refuting the myths and dogmas of the Left. In Chodorov's mind, only individuals themselves could, and should, make all relevant personal decisions. To rely on the vague notion of the "community" to make such decisions, as Kirk and others urged, was to subjugate the individual to the collective, and this subjugation was to be avoided at all costs.

The Cold War

Chodorov's unwavering defense of individualism and the minimal state also led to clashes with other American rightists regarding foreign policy. By the late 1950s, most conservatives agreed that noninterventionism no longer constituted a viable option; Soviet power was so immense and threatening that the United States needed to prosecute another expensive war, the Cold War. Chodorov balked. The Soviets, he argued, were a threat to the United States only if Americans allowed them to be. The real danger was not that the Soviet Union would conquer the United States militarily but that in the name of a "strong national defense," the United States would take actions that would thoroughly collectivize the nation—this time, for good. Increasing the power of the state in response to the Soviet menace would not defeat socialism in Russia but bring it to the United States.[10] For these reasons, he called the Cold War a "war to communize America."

In a brilliant essay on "Isolationism," Chodorov once again stated his position for

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Headline art from Frank Chodorov's regular **Freeman** *column in the mid-1950's.*

those who had ignored it the first time. He believed that isolationism was not only the type of foreign policy that kept the state to a manageable size, but also the one compatible with the makeup of human beings. "It is in the nature of the human being to be interested first, in himself, and secondly, in his neighbors." To ask someone in Michigan, for example, to be interested in the affairs and political stability of Tennessee is slightly unreasonable; to ask that same person to be interested in the affairs of a far-off Latin American country is simply absurd.

For Chodorov, a noninterventionist foreign policy was incompatible with protectionism or a restrictionist stand on immigration. Noninterventionism restricted the power of the state; tariffs and immigration quotas expanded it. Noninterventionism, free trade, and open borders belonged in the same package. To accept one part of the package while rejecting the others was not only to give in to the state, but to flirt with nativism. In chastising the America First Committee's defense of trade and immigration restrictions, he wrote:

> One flaw in their program was a tendency toward protectionism; the anti-involvement became identified with "Buy American" slogans and with high tariffs; that is, with economic, rather than political, isolationism. Economic isolationism—tariffs, quotas, embargoes and general governmental interference with international trade—is an irritant that can well lead to war, or political interventionism. To build a trade wall around a country is to invite reprisals, which in turn make for misunderstanding and mistrust. Besides, free trade carries with it an appreciation of the cultures of the trading countries, and a feeling of good will among the peoples engaged. Free trade is natural, protectionism is political.[11]

Chodorov also parted company with most of the conservative movement regarding big business. Unlike many of his colleagues, Chodorov did not hold a romantic view of corporate America; and he certainly did not agree with Ayn Rand's belief that big business is "America's most persecuted minority." Instead he saw big business as all too willing to compromise with big government, producing a disastrous result for most Americans. In this way, he foreshadowed the arguments made by William Appleman Williams and Gabriel Kolko in the 1960s. Chodorov argued that "in America it is the so-called capitalist who is to blame for the fulfillment of Marx's prophecies. Beguiled by the state's siren song of special privilege, the capitalists have abandoned capitalism."[12] And to abandon capitalism was to abandon the very system necessary for the preservation of individual liberty and the attainment of human happiness.

Despite Chodorov's differences with many on the Right—and there were a number of significance—he maintained a position of prominence even after he left *The Freeman* in 1955. This was largely because of the Intercollegiate Society of Individualists (ISI), which he founded with Buckley in 1953 and

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continued to oversee until his death in 1966.[13] ISI was the first large free-market organization to focus its efforts on influencing college students. Its goal was to be an effective antidote to the well-organized Intercollegiate Society of Socialists. It attempted to accomplish its mission by distributing free-market books and pamphlets to interested students, sponsoring classical liberal speakers on the campuses, and organizing discussion clubs. By the early 1960s, more than 40,000 students had taken part in its programs.

ISI was an important part of Chodorov's strategic program for turning back the tide of statism. Having tired of attempts to directly influence the political process (he did not vote after 1912), Chodorov became convinced that the only way the individualist tradition could be saved was by spreading classical liberal ideas among young people, who would one day be the opinion-shapers. Students, he believed, could be influenced and, thus, attention should be directed toward them. "What the socialists have done can be undone, if there is a will for it. But, the undoing will not be accomplished by trying to destroy established institutions. It can be accomplished only by attacking minds, and not the minds of those already hardened by socialistic fixations. Individualism can be revived by implanting the ideas in the minds of the coming generations. . . . It is, in short, a fifty-year project."[14]

Unfortunately, Chodorov did not have 50 years left to see what would come of his prediction. He suffered a stroke in 1961 while teaching at Robert LeFevre's Freedom School in Colorado. The stroke limited his activity sharply, and his output dwindled continuously until his death five years later. Yet, in many ways, his work had already been accomplished. He had done more than his part to ensure that the great American tradition of individualism would not die—at the hands of either the socialists or the growing legion of conservatives who saw little value in the ideals of classical liberalism. And he had built upon the intellectual foundations of this tradition himself, adding many keen and original insights.

As libertarians continue to wage an intellectual war against the omnipotent state, they would be wise to consult Frank Chodorov's writings. For as William F. Buckley Jr. has said, everybody "is bound to benefit from exposure to his purist and dogged battle against institutionalized power, and the case he weaves for the presumptive denial to the central government of every additional BTU it asks for."[15] □

1. Cited in George H. Nash, *The Conservative Intellectual Movement in America Since 1945* (New York: Basic Books, 1976), p. 380.
2. Frank Chodorov, *Out of Step: The Autobiography of An Individualist* (New York: Devin-Adair, 1962), p. 75.
3. *Ibid.*, p. 79.
4. Cited in Nash, pp. 17–18.
5. Charles H. Hamilton, ed., *Fugitive Essays: Selected Writings of Frank Chodorov* (Indianapolis: Liberty Press, 1980), p. 363.
6. Frank Chodorov, *Human Events* Pamphlet Number 15, "Taxation is Robbery" (Chicago: Human Events Associates, 1947), p. 9.
7. Hamilton, p. 239.
8. Cited in Nash, p. 353.
9. In a 1956 letter to *National Review*, Chodorov stated: "As for me, I will punch anyone who calls me a conservative in the nose. I am a radical." Cited in Hamilton, p. 29.
10. In Chodorov's mind, the Soviet Union was not a viable experiment; it would eventually implode. Thus, the United States didn't *need* to wage an activist battle against it. As he liked to state: "Private capitalism makes a steam engine; State capitalism makes pyramids." To him, the Soviet Union was in the process of making a number of pyramids, while neglecting the production of things that sustain a society.
11. *Out of Step*, p. 119.
12. Hamilton, p. 149.
13. ISI was renamed the Intercollegiate Studies Institute after Chodorov's death and remains in operation to this day.
14. *Out of Step*, p. 248.
15. William F. Buckley Jr., "Nay-Sayer to the Power-Hungry," *National Review*, December 4, 1962, p. 447.

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THE FREEMAN
IDEAS ON LIBERTY

Global Warming: Not an Immediate Problem

by J. David Bethel

All too often we find ourselves mounting a rearguard action to fend off public policies or programs limiting our choices, costing us money and, generally, making life tougher to live. In many instances during these struggles, we have to be content with small victories: holding social welfare program budgets to minimal growth or reining in policies that would expand government responsibilities. Occasionally an opportunity comes along to stop an ill-conceived government program dead in its tracks or to get rid of bad public policy before it becomes entrenched. Today, we have such an opportunity.

Some would have us believe that our planet is headed for a flameout. They contend that humankind is living unwisely. They predict that apocalyptic climate change could do us in. But we are told there is hope if we will place ourselves in the hands of national and international governing bodies whose collective wisdom will save us from ourselves.

What we are not told by our would-be saviors is that climate change is nothing new on this planet. We are not told that the science of climate change is imperfect at best. We are not told that most of the purported signatures of climate change could easily be attributed to the natural variability of weather. We are not told of the serious economic consequences that proposed climate-change policies would have for our society.

Mr. Bethel resides in Arlington, Virginia.

Now is the time to face this issue. If we permit this relatively new offshoot of statism to sneak up behind us, it will be difficult to contain the damage.

Defining the Problem

Our planet has experienced significant weather changes over time, from numerous ice ages to periods of warm, even hot, temperatures. The reason for this variability is not well understood, although influences are attributed to the earth's orbit, volcanism, and changes in the sun's energy output.

During the past 100 years, global temperatures have warmed an average of 0.5 degrees Celsius (about one degree Fahrenheit). This increase is within the range of variability expected with climate change, but those who subscribe to the "global warming" theory explain this event as a man-made enhancement of the naturally occurring "greenhouse effect."

A layer of atmospheric gases (primarily water vapor, carbon dioxide, and methane) encircles the earth and serves as a protective blanket or insulator retaining warmth from the sun; hence the term "greenhouse effect." Without this natural process, large areas of our planet would be so cold as to be uninhabitable.

The United Nations Intergovernmental Panel on Climate Change (IPCC) contends that if government policies are not put into

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place to limit man-made carbon dioxide emissions, CO_2 will double in the atmosphere by the end of the next century, causing potentially catastrophic warming.

Anxiety about this prospect has prompted the U.S. government to spend $2.1 billion annually on research in this area. Concern and study make sense, given our continuing dependence on fossil fuels. But, before we move much beyond the research stage, it would be prudent to establish whether global warming actually *does* threaten our well-being.

Identifying the Problem

Meteorologists and climatologists use computer models to simulate the interplay of many complex variables that constitute the earth's climate system, thereby determining the impact of these variables on climate change. Arriving at conclusive determinations has proved challenging for a number of reasons.

First, the complications of climate factors, such as the reflection of sunlight, the role of cloud cover, and the feedbacks associated with snow and ice, are still not understood well enough to permit the creation of totally reliable climate models.

Furthermore, even the most advanced computers cannot run the complex models that include every possible weather variable. Consequently, the models must be simplified, which calls for the use of approximations and assumptions.

Scientists at MIT conducted a study of computer simulation "adjustments." Specifically, they examined procedures for adjusting climate models to account for the amount of heat and moisture flowing between the atmosphere and the oceans. The MIT research revealed that although these adjustments often allow models to simulate existing climate, they mask flaws that inevitably skew future predictions produced by the computer simulations.

Gerald Meehl of the National Center for Atmospheric Research described the difficulty of creating accurate climate models this way: "You can put all the components [of climate] together . . . but we know from our own experience with ocean, atmosphere, and ice components that it's a major step from components to having it look like the planet Earth."

Forecasting Global Warming

Computer models have indicated that with the increase in greenhouse gases, our planet should have been experiencing a relatively rapid warming trend, on the order of 0.3–0.5 degrees Celsius during the past 15 years. Satellite temperature readings analyzed by the National Aeronautics and Space Administration (NASA) indicate that no such warming occurred during this period. In fact, these data show a cooling trend of −0.06 degrees Celsius from 1979 to 1994.

Also, according to computer simulations of the greenhouse effect, the average temperature in the United States should have increased by approximately 1.5 degrees Celsius during the past 100 years. Information collected by the National Climatic Data Center shows no significant warming in the United States.

Computer models of global climate change have indicated that the earth's average temperature should have increased by 1 degree Celsius during the past century. As noted, if the planet has warmed, it has been only by about 0.5 degrees Celsius.

Significantly, the greater part of this purported increase, about 0.4 degrees Celsius, occurred before 1940. Yet roughly two-thirds of the carbon dioxide increase in the atmosphere occurred after 1940, which brings into question man's role in the process.

As for the future, according to the 1992 IPCC report, temperatures will rise 2.5 degrees Celsius by the second half of the next century. This forecast, however, is based on the same computer models that erroneously predicted a warming trend of 0.3–0.5 degrees Celsius for the 1980s and early 1990s.

Fearing Fear Itself

Unusual occurrences in nature are reported regularly and often attributed to global

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warming. This attribution occurred recently when a large piece of the Larsen Ice Shelf broke away from the Antarctic Peninsula. However, Dr. Jo Jacka, a glaciologist from the Australian Antarctic division, determined that the detachment of the iceberg from the Larsen Ice Shelf was a natural occurrence, not an indicator of global warming. Many of Dr. Jacka's colleagues have also disputed the claim of warming in the Antarctic and the Arctic regions. According to the *Global Warming Experiment*, a study of climate change published by the George C. Marshall Institute, "The 40-year record confirms the satellite finding of a cooling trend in the Arctic."

Extreme weather events such as hurricanes, tornadoes and, most recently, the Blizzard of '96 have also been cited as evidence of climate change. However, a report issued by AccuWeather, the world's leading commercial weather firm, finds no increase in weather-related natural disasters. In fact, the AccuWeather study, "Changing Weather? Facts and Fallacies About Climate Change and Weather Extremes," indicates the number of hurricanes in the Northern Hemisphere may actually have decreased in recent years. Storms detected today by advanced tracking systems would have gone unnoticed earlier in the century.

The study also reports similar findings about other extreme weather events. No evidence was discovered of an increase in strong or violent tornadoes in the 48 contiguous states between 1953 and 1993. The information points to a reduction in such activity. The authors of "Facts and Fallacies" attribute the perception of an increase in extreme weather events to three factors: "more people live in areas that were once sparsely populated or even uninhabited; local media are now able to quickly report severe weather events . . . in distant parts of the globe; and more sophisticated weather monitoring systems and more widely distributed population mean that extreme events in remote areas are more likely to be detected."

As the World Meteorological Organization also notes, "any increase in the number of fatalities, injuries and amount of damage and destruction caused by extreme events can often be related to population increases, especially in those regions most susceptible to climate variability."

Global warming has been blamed for a resurgence in infectious diseases, especially "vector-borne diseases" such as malaria and dengue, which are carried by mosquitos, rodents, and other vectors. However, the chief of the vector-borne disease branch of the U.S. Centers for Disease Control doubts any connection exists between climate change and the spread of disease. Dr. Duane Gubler told the *Baltimore Sun* recently, "Dengue is an example that all the people who talk about this use. . . . But none of this has been associated with global warming." Dr. Gubler blames poverty, poor sanitation, increased world population, and a declining health infrastructure for the spread of disease. Dr. John La Montagnac, a director at the National Institute of Allergy and Infectious Diseases, has also expressed doubts about the relationship between infectious diseases and global warming.

Global Warming Policy Development

Despite weaknesses in the science of climate change and despite ready evidence to counter fears of global warming, environmental activists are insisting on strict, comprehensive government programs that would bring:

- carbon taxes;
- a system of international policing to monitor the usage of CO_2;
- greater financial support for the 18 U.N. agencies involved in climate change activities;
- massive government subsidies for alternative energy sources.

The bureaucratization of climate-change policymaking is already on the horizon. In what appears to have been a decision to err on the side of caution, the United States became a signatory to the Framework Convention on Climate Change in 1992. More popularly known as the Rio Climate Treaty, this document established national goals for cutting emissions of greenhouse gases to 1990 levels by the year 2000. The United States formal-

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ized its commitment to reduce greenhouse gas emissions with the institution of the U.S. Climate Change Action Plan.

In the spring of 1995, the Rio Climate Treaty signatories met again and produced the Berlin Mandate, which seeks even more severe limitations on emissions of greenhouse gases by the industrialized countries. Procedures were developed in Berlin that would "set qualified limitation and reduction objectives within specified time frames, such as 2005, 2010 and 2020, for greenhouse gas emissions."

At a meeting of the IPCC in December 1995, the participants agreed to a carefully worded statement indicating that, "the balance of evidence ... suggests a discernible human influence on global climate." This sets the stage for the continuing development of policies to decrease emissions of greenhouse gas.

The agreements do not specify how nations are expected to achieve a reduction in emissions. The Framework Convention states only that "policies and measures to deal with climate change should be cost-effective so as to ensure global benefits at the lowest possible cost."

Economics of Climate Change Policies

Recently, a number of economic studies have assessed the costs associated with achieving the emissions-reduction targets accepted by the United States.

Dr. Alan S. Manne of Stanford University conducted a study of typical abatement proposals intended to stabilize carbon emissions between 1990 and 2000, reduce them to 80 percent of this level by 2010, and stabilize them thereafter. According to Dr. Manne's findings in "Global Carbon Dioxide Reductions—Domestic and International Consequences," price-induced energy conservation and shifts to low-carbon fuels would result in annual losses ranging from 1 percent of the U.S. gross domestic product to nearly 2.5 percent of our GDP.

Dr. Manne's basic conclusions have received support in studies conducted by Dr. Lawrence Horwitz of DRI/McGraw Hill. Dr. Horwitz reported in "The Impact of Carbon Dioxide Emission Reductions on Living Standards and Lifestyles" that efforts to reduce greenhouse gas emissions to 1990 levels by 2010 through the use of carbon taxation would reduce U.S. GDP by 2.3 percent, or $203 billion.

Dr. Horwitz discovered additional problems with near-term emissions-abatement programs. He predicts that 89 percent of U.S. consumption categories would be affected negatively by the carbon tax, with 40 percent of the total energy-cost increases falling directly on households. The balance of the increases would be borne by industry, then passed along to consumers. According to Horwitz, higher costs and lessened demand would spread damage throughout our economy. Real business fixed investment would decline $56 billion annually by 2010. Real disposable income levels would drop $75 billion in 1992 dollars by 2010. These developments would lead to severe job losses. Dr. Horwitz estimates the loss of more than 500,000 jobs per year between 1995 and 2010, with 1,000,000 jobs lost two years after the tax was fully implemented.

The Manne study of global CO_2 reductions also reveals that restrictive approaches to limit carbon emissions would hinder our international competitiveness in such basic industries as chemicals, steel, aluminum, petroleum refining, and mining. He contends further that the U.S. coal-exporting industry would be put out of business, and severe strains would be placed on important trade pacts like NAFTA and GATT.

Aside from the economic costs associated with the present emissions-abatement proposals, *The Global Warming Experiment* reveals that the current policy direction contains a fatal flaw. The study notes that the burden of carbon emission reductions falls on the United States and on other industrialized countries at a time when the former Soviet Union and the developing nations of the world are emerging as the primary contributors to the growth of greenhouse gases. IPCC estimates show that the developing nations and the former Soviet bloc countries currently

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account for more than 50 percent of the carbon dioxide emissions, and by 2025 and 2100 the percentages will be 67 percent and 78 percent, respectively. By failing to include these nations in the program, any savings in the industrialized world will be more than offset by carbon "leakage" generated by the excluded parties.

Rational Response to Potential Climate Change

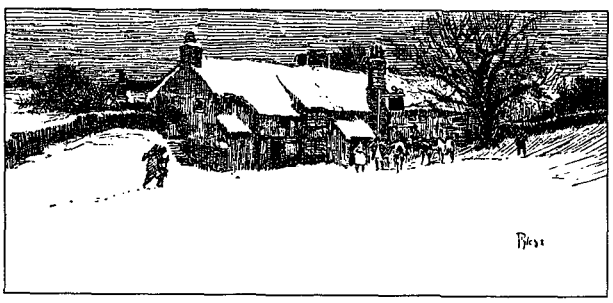
Given the uncertain prospects for drastic climate change in the immediate future and considering the potential for crippling costs of aggressive emissions-abatement policies, reasoned concern and continued study appear to be the responsible courses of action. These thoughtful approaches, unlike more aggressive proposals promoted by some environmental groups, will avoid the need to retire existing capital stock. They will allow time for advances in technology to bring improvements in energy use and supply. And a less restrictive policy will permit the development of ample supplies of low-cost substitutes for high-carbon-emitting fossil fuels, which currently account for 90 percent of the world's supply of commercial energy.

W. David Montgomery, a former visiting lecturer at Stanford University and currently lead author with the IPCC, makes a case in a recent paper that the imposition of near-term emissions-reduction programs would be costly and potentially unnecessary. He suggests in "Developing a Framework for Short- and Long-Run Decisions on Climate Change Policies" that several steps should be followed to develop economically rational approaches, including:

- analyze ultimate net costs and benefits to the United States of specific agreements;
- analyze implications for net costs and benefits to the United States of international sharing of the burden of response;
- inventory possible policy responses and analyze the economic merits of alternative response options.

The Global Warming Experiment asked the question: "What would be the consequence ... of a delay of a decade in implementing the Rio Treaty limits on carbon dioxide emissions?" The answer: "A decade's delay could buy (time for) satellite observations of the global climate system, particularly observations that could lead to improvements in the treatment of the major cloud and vapor feedbacks in the climate simulation programs."

Perhaps Dr. Manne put the matter in perspective best, noting that: "Since global temperatures are not likely to rise significantly during the next several decades, an aggressive carbon dioxide abatement policy is unwarranted for the near term. Such policies, if implemented, could cost hundreds of billions of dollars. Even after 2020, there would still be enough time to adapt the global economy to a sharp decline in carbon emissions if we learn that such action is warranted." □



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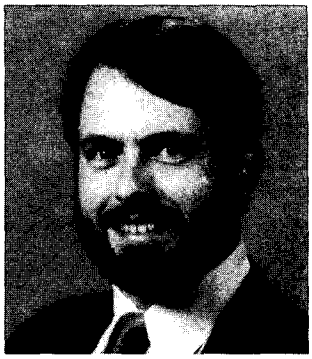

Foreign Aid and International Crises

Few programs have consumed as many resources with as few positive results as foreign aid. Since World War II the United States alone has contributed more than $1 trillion (in current dollars) in bilateral and multilateral assistance to other countries. Other nations and international aid agencies have provided hundreds of billions of dollars more.

American assistance comes in various forms—grants and loans for bilateral projects, primarily through the U.S. Agency for International Development (USAID), as well as credit from U.S.-funded multilateral agencies, including the International Monetary Fund (IMF) and World Bank, to underwrite borrower development projects and provide aid for "structural" economic reforms. Other programs underwrite military purchases and provide disaster relief. Although some individual development projects have no doubt worked, and humanitarian aid can help alleviate the effects of crises, there is little evidence, despite the presumption of the term "foreign assistance," that American cash transfers, whether bilateral or multilateral, actually do much to advance growth or stability throughout the developing world.

Even many advocates of foreign assistance acknowledge the disappointing results. For instance, USAID admitted in 1993 that "much of the investment financed by U.S. AID and other donors between 1960 and 1980 has disappeared without a trace."

Nor is there any reason to believe that better management would enable foreign aid to assist poor nations in achieving self-sustaining economic growth. Decades' worth of financial transfers have not stopped developing countries from stagnating economically; indeed, many nations have been losing ground. Fully 70 developing states are poorer today than they were in 1980; 44 are worse off than they were *in 1960*. International comparisons are obviously fraught with difficulty, but aid levels don't correlate with economic growth, and many of the biggest recipients of foreign assistance, such as Bangladesh, Egypt, India, Sudan, and Tanzania, have been among the globe's worst economic performers.

Of course, even correlation would not be enough. The real issue is causation, but there is no evidence that aid generates growth. Particularly impressive are studies by Peter Boone of the London School of Economics. After assessing the experience of nearly 100 nations, he concluded that "Long-term aid is not a means to create growth." As Boone explained, "it is not optimal for politicians to adjust distortionary policies when they receive aid flows."

The failure of foreign assistance to meet its traditional goals has led to a search for new justifications. The current favorite is that financial transfers can be used to prevent social catastrophe, the veritable implosion

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of entire nations. In June 1994 USAID was ordered to "start putting together a socio-economic and political early warning system, to identify the vulnerabilities" of weak developing states, and to "start putting some resources behind them." Administrator Thomas Atwood calls this mission "crisis prevention" and "preventive investment" in "nation building."

Similarly, the U.N. High Commissioner for Refugees has suggested using aid for forestall crises. Last year the agency asked: "What might have happened in Rwanda if the estimated $2 billion spent on refugee relief during the first two weeks of the emergency had been devoted to keeping the peace, protecting human rights and promoting development in the period that preceded the exodus?"

Nothing probably. Rwanda did not go unaided before its implosion. To the contrary, between 1971 and 1994 that nation received $4.5 billion in foreign assistance. In fact, almost every country in crisis received abundant outside transfers from a variety of sources beforehand. Over the same period, Sierra Leone received $1.8 billion, Liberia $1.8 billion, Angola $2.7 billion, Haiti $3.1 billion, Chad $3.3 billion, Burundi $4.1 billion, Uganda $5.8 billion, Zaire $7.8 billion, Somalia $8 billion, Mozambique $10.4 billion, Ethiopia $11.5 billion, and Sudan $13.4 billion. (See the table.)

Aid: 1971–1994 (Millions of Dollars)

Nation	U.S.	Total International	Annual Average
Angola	117	2,743.1	114.3
Burundi	139	4,090.5	170.0
Chad	239	3,281.6	136.7
Ethiopia	999	11,499.6	479.2
Haiti	1,425	3,120.7	130.0
Liberia	639	1,795.0	74.9
Mozambique	616	10,419.3	434.1
Rwanda	416	4,505.0	187.0
Sierra Leone	172	1,769.0	73.7
Somalia	1,770	8,064.2	336.0
Sudan	1,692	13,415.9	559.0
Uganda	295	5,798.8	241.6
Zaire	529	7,800.0	325.0

(Source: Organization for Economic Co-operation and Development, *Geographical Distribution of Financial Flows to Developing Countries*, volumes covering 1971 through 1994.)

In none of these cases did foreign assistance forestall catastrophe. Indeed, few nations in Africa, irrespective of aid levels, have escaped social breakdown. Conflict and economic decline have resulted in tens of thousands of refugees fleeing Gambia, Mali, Mauritania, Niger, Senegal, Togo, and Western Sahara, as well as the states listed above.

Obviously, there are numerous reasons that so many nations, including some in Southeast Asia and the Transcaucasus, suffer so. In none of them is inadequate international aid the cause. To the contrary, foreign aid helped create and aggravate problems in Ethiopia, Somalia, Sudan, and Zaire, in particular, by subsidizing especially odious dictators who wrecked their nations. Among the most important causes of social division and catastrophe is what has been called "the overpoliticized state." Yet government-to-government aid only strengthens the very same overpoliticized state.

All aid advocates can now argue that they would do better this time, since, with the end of the Cold War, there is less pressure to use assistance as de facto bribes to assorted dictators. However, the bulk of foreign transfers to such failed nations was always economic, not security. Between 1971 and 1994 the United States accounted for barely one-fifth of total assistance received by Somalia. The rest was economic aid from a variety of sources—the multilaterals and Europeans, in particular. During the same period Rwanda received more from the World Bank alone than from the United States; Burundi collected 3.6 times as much from the Bank as from Washington. In short, the problem with past aid is not that it was overly oriented toward political purposes. Rather, it is that such transfers turned out not to be aid at all. And the impact of new aid flows would be no different.

For nearly half a century the policy of foreign aid has been tried and found wanting. Today's attempt to put old wine into new wineskins—to offer new justifications for yesterday's failed policies—won't work. There is

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simply no evidence that increased aid flows can prevent future failed societies.

The most important thing that developed nations can do to assist poorer states is to first do no harm. Washington should end government-to-government assistance, which has so often buttressed brutal and venal regimes and eased pressure for reform. At the same time, the United States should drop its trade barriers, which now prevent poorer nations from participating in the international marketplace. The World Bank's J. Michael Finger figures that Western protectionism reduces the Third World's GNP by a full three percentage points, twice current foreign aid transfers.

Mass poverty, famine, and murder blight our globe. However, the understandable desire to do something should not become an excuse to maintain the counterproductive policies of the past. For five decades foreign assistance has failed to deliver self-sustaining economic growth or prevent poor societies from collapsing into chaos. New aid flows will do no better. □

Arab Terrorism: Causes and Cure

by Robert W. McGee

Politicians are quick to condemn Arab terrorism such as the 1983 attack that killed 241 U.S. servicemen in Beirut, Lebanon, the Oklahoma City bombing (that turned out not to be the work of Arab terrorists), the World Trade Center bombing, and the Saudi Arabian bombing that killed or injured hundreds of people. The press always devotes substantial coverage to such events. But the big question—the one that neither politicians nor the press ask—is, "Why do some Arabs engage in such activities?" Why are they willing to engage in suicide attacks and bombings, and why do they single out the United States (as well as Israel) as their target? What grievance makes them so willing to kill, and to die?

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Some of the information in this article was obtained from the April 1996 issue of Washington Report On Middle East Affairs.

Anyone who pays any attention to the news knows that the United States has been the strongest supporter of Israel since its founding in the 1940s, and that various Arab states have, at one time or another, been enemies of Israel. Much less reported by the U.S. media is the violent Israeli aggression against the Arabs—Palestinians in particular—since the founding of Israel.

The Palestinian "problem" exists because the state of Israel was established on Palestinian land. During the 1948 war, the Israeli forces not only drove the Palestinians from their homes, but also made a point of dismantling more than 400 Palestinian villages, towns, and cities stone by stone, so that the Palestinians would have nothing to return to. As a result, three million of the estimated six million Palestinians are refugees, a million of whom are forced to this day to live in

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appalling conditions in refugee camps with little hope for the future.

The Palestinians' property right, one of the most basic of all human rights, was systematically disparaged. The disparagement continues to this day, as evidenced by the West Bank settlement policies of the present Israeli government. Russian Jews and others are being given Palestinian land to live on, and the Palestinian owners are being driven from their land without compensation. Whole Palestinian neighborhoods in East Jerusalem have been confiscated and turned over to Jewish "settlers" in an effort to consolidate the Jewish hold on the city, which Israel is making the capital of the Jewish state.

The land grab is only one of many human rights abuses that the Palestinians have endured. Palestinians are subject to searches at numerous checkpoints in their own country. Their homes can be blown up without due process if a family member is merely accused of terrorist activity. There have been systematic attempts to prevent Palestinians from getting an education, as evidenced by the closing of Palestinian schools. While the official reason for the shutdowns was to close places where Palestinians could gather and organize, Israeli government officials also closed correspondence schools, where no gathering could take place.

Beatings, torture, imprisonment, and even killings of Palestinians have become commonplace. Palestinian farmers have been deprived of water for their farms, while Israeli farmers get what they need. Palestinian freedom of travel has been restricted or denied on numerous occasions, making it difficult or impossible to visit family or go to work, thus causing economic hardship. Christian and Moslem Palestinians who live in the West Bank and Gaza have been prevented from worshiping at Jerusalem's religious sites for "security" reasons. Palestinian merchants who sell watermelons in the local market have been beaten because they sliced open the watermelons, revealing the colors of the Palestinian flag, which was forbidden at the time. Palestinians have also been beaten for wearing shirts in the colors of the Palestinian flag. During the recent election, right-wing Israeli party posters placed in front of polling places falsely warned Palestinians that their health and pension benefits would be taken away if they voted, greatly reducing the number of Palestinians who dared to vote. Some of those who tried to vote were beaten by police.

About 40 Israeli police beat one young Palestinian in front of James Moran, a member of the U.S. Congress. Bystanders said this sort of thing happens all the time. Israeli rubber bullets have caused some Palestinian youths to become brain dead. Between the start of the *intifada* in 1987 and mid-1995, more than 1,400 Palestinians, including 260 children were killed. The American press devotes little or no space to these Palestinian murders, yet never fails to cover a story involving the death of one or two Israeli soldiers.

U.S. press coverage is biased toward Israel. But that is not why some Arabs want to blow up Americans and American property. One of the main reasons these Arabs are outraged is because the U.S. government has been the strongest supporter of Israel from the very beginning. Sirhan Sirhan, the Arab who assassinated Robert Kennedy, said he did so because Senator Kennedy approved the sale of military aircraft to Israel, which would be used to kill Palestinians. While the Holocaust was a tragedy, and while everyone agrees that systematic extermination of an ethnic or religious group cannot be condoned, it does not follow that the survivors of an abused group have some inherent right to found a country on someone else's land.

U.S. taxpayers have been forced to support this land grab, and the many human rights abuses that have accompanied it, since the 1940s. For the 1996 fiscal year alone, American taxpayers had to pay more than $5.5 billion for various kinds of aid to Israel—$1,375 for every Jewish man, woman, and child (Palestinians don't get the benefit of the aid). Yet Israel cannot be called a poor country. It has a gross domestic product per capita approaching that of England.

Re-Examining Foreign Aid

The whole issue of foreign aid needs to be reconsidered. The U.S. Constitution provides

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for a government of limited powers. The government can do constitutionally only what is specifically enumerated. As the Constitution says nothing about foreign aid, it is constitutionally suspect. Those who favor foreign aid programs might argue that giving foreign aid is in the best interest of the United States. But even if that were sometimes the case, it does not follow that foreign aid programs become constitutional just because they might be in America's best interest. Besides, the "best interest" argument does not seem to apply to Israel, a country that has received nearly $78 billion in foreign aid from the United States between fiscal 1948 and 1996. At least part of the military aid Israel receives is used to deny the human rights of Palestinians. The nonmilitary aid is used to support an economic system that is basically socialist. How can the United States have an interest in supporting such a regime?

American taxpayers are being forced to support Israeli terrorism and socialism. At the very least, the foreign aid spigot should be turned off, the sooner the better. In addition, politicians who have the courage should speak out against the human rights abuses perpetrated against the Palestinian people. Even if one concedes that the United States has some strategic interest in Israel (I do not concede this point), it does not follow that American taxpayers should be forced to support a corrupt regime that systematically abuses the human rights of a targeted ethnic group. Human rights are human rights, and no government should ever condone or financially support a regime that systematically disparages them. Once U.S. support stops, Arab terrorists (some of whom may legitimately be called freedom fighters) will be far less likely to attack U.S. property and citizens.

Although some Arabs hate the United States because of its support of Israel, that is not the only reason why some Arabs are angry with the United States. Historically, various U.S. governments have supported corrupt regimes. The United States government supported the Shah of Iran; a fascist South Vietnamese dictator who was fighting a communist North Vietnamese dictator; Stalin's enslavement of millions of East Europeans; and Ferdinand Marcos in the Philippines when it was fashionable to do so. During the Gulf War the United States government came to the aid of a family of dictators in Kuwait who were being attacked by an Iraqi dictator. American soldiers were summoned to a Kuwaiti prince's house to reinstall the gold plumbing that had been stolen by Iraqi soldiers—hardly a legitimate use of American troops. The U.S. government has supported a number of corrupt regimes in Arab countries over the years because American leaders thought it was in the best interest of the United States to do so. Although it is seldom in anyone's true best interest to support corrupt regimes, it is a morally bankrupt policy, and the Arabs recognize that fact.

While cutting off American aid to Israel and ending support for corrupt Arab regimes might stop Arab terrorism against the United States, it will not stop the violence in Israel. That is unlikely to cease until human rights abuses are stopped and the land that has been taken is restored to its rightful owners. Muslims, Jews, and Christians can live in peace, but only when human rights, including property rights, are respected. □

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THE FREEMAN
IDEAS ON LIBERTY

Putting the Framers' Intent Back Into the Commerce Clause

by Eric W. Hagen

On April 26, 1995, for the first time in almost 60 years, the U.S. Supreme Court invalidated a federal statute on grounds that Congress had no authority under the Commerce Clause of the U.S. Constitution to pass the law. The case, *United States v. Lopez*,[1] involved a challenge to the Gun-Free School Zones Act,[2] a federal criminal statute that made it a federal offense for anyone to possess a firearm within 1,000 feet of a school. The Court held that the statute exceeded Congress's authority to regulate interstate commerce because possession of a gun in a local school zone was not economic activity and did not "substantially affect" interstate commerce.

Under the Constitution as originally written and understood, the invalidation of the statute in *Lopez* would have received little attention. As James Madison, the principal draftsman of the Constitution, wrote: "The powers delegated by the proposed Constitution to the federal government are few and defined. Those which are to remain in the State governments are numerous and indefinite."[3] For the first 150 years of the Republic, this admonition had a profound effect. Congress, for the most part, refrained from creating the kinds of laws that compose today's gargantuan regulatory state. When Congress attempted to flex its regulatory muscle, the Supreme Court would step in and invalidate the regulations, either for regulating activities with too indirect an effect on interstate commerce or for regulating noncommercial activities, such as mining or manufacturing.[4]

The Supreme Court abruptly departed from this original understanding of the commerce power in the years following President Franklin D. Roosevelt's infamous "court-packing" scheme of 1937.[5] Along with the Court's ideological shift began the systematic process of erasing the previous limitations that had restrained Congress's regulatory power.[6] As a result, congressional authority under the Commerce Clause emerged as virtually unlimited. In *Lopez*, the Court, at long last, acknowledged that some limits still exist, but how these limits are defined remains somewhat uncertain.

The *Lopez* Definition of Commerce

Chief Justice Rehnquist, writing for the majority in *Lopez*, identified three broad categories of activity subject to congressional regulation under the Commerce Clause: (1) "the use of the channels of interstate commerce"; (2) "the instrumentalities of interstate commerce, or persons or things in interstate commerce, even though the threat

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may come only from intrastate activities"; and (3) activities that "substantially affect interstate commerce."[7]

The first two categories are fairly straightforward: Congress may regulate commercial channels, such as highways, waterways, and air traffic; it may also regulate and protect instrumentalities within such channels, such as people, machines, and vehicles.[8] The third category, as the Court readily admitted, is more nebulous.[9] Nevertheless, the Court gave some hints as to what is required for a federal statute in this third category to be upheld as a valid exercise of Congress's commerce power.

The Court first noted that a regulated activity's impact on interstate commerce must be substantial and not merely incidental.[10] The Court also affirmed that when Congress exercises its commerce authority, the regulations it promulgates must have some real connection to commercial or economic activity.[11] Justice Breyer, the principal dissenter, sharply criticized this commercial-noncommercial distinction as a return to an untenable, pre-Depression version of the Commerce Clause.[12] Of course, the flaw in Justice Breyer's argument is that he seems to suggest that the Court should ignore jurisprudential errors simply because they have become entrenched. In light of this quandary, it is uncertain whether activities that are not clearly commercial are still subject to regulation; however, it may be inferred from *Lopez* that any connection to economic activity must at least be more obvious than the link between interstate commerce and guns in schools.

The Court next examined two fatal flaws in the Gun-Free School Zones Act. First, the statute contained no jurisdictional element to ensure, on a case-by-case basis, that the gun possession in question affected interstate commerce; and second, Congress made no formal findings regarding the effects of gun possession in school zones on interstate commerce.[13] The majority ruling did not state that the presence of a jurisdictional nexus is conclusive of a statute's validity, but the absence of any such nexus raises serious questions as to whether the law goes beyond the enumerated power under which it was enacted. With regard to congressional findings, the Court recognized that while such findings are not dispositive, they may have some relevance in establishing a link to interstate commerce.[14]

Finally, the Court noted that states have historically possessed primary authority for regulating areas such as criminal law, family law, and education.[15] The Court asserted that if no limits were placed on Congress's commerce power, then the federal government would usurp these traditional state functions and thereby undermine the structural guarantee of freedom provided by federalism.[16] The Court thereby accepted the Framers' understanding that preventing the accumulation of excessive power in the federal government reduces the risk of tyranny.

It is unlikely that *Lopez* goes so far as to prohibit direct federal regulation of traditional state functions, especially when the Court rejected such an approach in *Garcia v. San Antonio Metropolitan Transit Authority*.[17] Nevertheless, if a federal statute were to regulate an activity that has traditionally been the subject of state control, the Court is perhaps now more likely to invalidate the law. This increased likelihood applies especially if the federal regulation disrupts the federal-state balance by foreclosing the states from "perform[ing] their role as laboratories for experimentation to devise various solutions where the best solution is far from clear."[18] As Justices Kennedy and O'Connor observed in their concurrence, federalism has a utilitarian function by discouraging centrally designed and controlled social policies that otherwise would lead to bureaucratic nightmares and Kafkaesque regulation.

Assessing *Lopez*

The precedential value of *Lopez* remains uncertain. Some commentators insist that the decision will have only a trivial impact,[19] others suggest that *Lopez* may have far-reaching consequences.[20] Several statutes have been analyzed under *Lopez* in the eighteen months since the decision was announced. While most courts have upheld a wide variety of federal regulations by constru-

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ing *Lopez* narrowly, the courts are not without dissension.

For example, federal district courts are split with regard to the constitutionality of the Child Support Recovery Act,[21] which made it a federal offense to willfully withhold an overdue support obligation from a child residing in another state. Some courts have invalidated the statute as beyond the scope of the commerce power and in violation of the principles of federalism.[22] In particular, these courts have observed that *Lopez* explicitly singled out federal regulation of family-law matters, such as child custody, as an unreasonable encroachment on state sovereignty. Other courts have upheld the statute, asserting that the regulation of child support payments has a substantial effect on the national economy.[23] Their conclusion is based on the fact that Congress produced an abundance of legislative history regarding such economic effects and that the statute ensures, on a case-by-case basis, a jurisdictional nexus to interstate commercial activity.

The cases upholding the Child Support Recovery Act appear to run contrary to the underlying spirit of *Lopez*, which endeavored to hold Congress to its constitutional limits and to restore some balance to the power relationship between the federal and state governments. However, as Justice Thomas foreshadowed in his concurrence in *Lopez*, the analytically boundless nature of the "substantial effects" test encourages decisions that are inconsistent with the principles espoused in *Lopez*,[24] so it is perhaps not surprising that courts are confused.

It should be further noted that courts do not necessarily have to invalidate a federal statute to prevent a significant intrusion on the traditional federal-state balance. A Ninth Circuit case[25] involving a federal arson statute[26] is illustrative in this regard. Like the statute at issue in *Lopez*, the activity regulated by the arson statute was noncommercial and Congress revealed no connection to interstate commerce through formal findings. Unlike *Lopez*, however, the arson statute contained a jurisdictional element that required, in each case, a connection to interstate commerce. Rather than invalidate the law, the court merely overturned a conviction on grounds that the jurisdictional requirement was not satisfied. Thus, courts have the option of using narrow statutory construction to remain true to the values of *Lopez*.

Original Intent Revisited

The Rehnquist Court could have decided *Lopez* differently, consistent with the modern trend of deferring to congressional actions. However, instead of turning the Commerce Clause into a general police power, the Court declared that the commerce power has limits. Contrary to the Court's case law of the past 60 years, this interpretation is much more consistent with the original purpose of the commerce power, which was primarily a means of eliminating trade barriers among the states.[27] Thus, in the wake of *Lopez*, Congress must rethink its belief that it has the authority to intervene in every national problem—a welcome notion in these days of big government.

Lopez undoubtedly gives rise to legal uncertainty, for one may no longer assume that the Court will routinely accept that Congress acted within its power. Such ambiguity may present an obstacle to lawmakers but, as Chief Justice Rehnquist noted, any advantage derived from eliminating this uncertainty would be at the expense of the Constitution's delicate system of enumerated powers. □

1. 115 S. Ct. 1624 (1995).
2. 18 U.S.C. § 922(q) (1988 ed., Supp. V).
3. James Madison, *The Federalist No. 45* (Clinton Rossiter, ed., 1961), pp. 292–93.
4. See, e.g., *Carter v. Carter Coal Co.*, 298 U.S. 238, 303-04 (1936) (invalidating the Bituminous Coal Conservation Act of 1935 in part because the act regulated production rather than trade); *United States v. Butler*, 297 U.S. 1, 68 (1936) (invalidating the Agricultural Adjustment Act because it invaded the reserved powers of the states); *A.L.A. Schechter Poultry Corp. v. United States*, 295 U.S. 495, 550 (1935) (striking down a "Live Poultry Code" authorized by the National Industrial Recovery Act of 1933 because the activity being regulated affected interstate commerce only "indirectly").
5. William E. Leuchtenburg, "The Origins of Franklin D. Roosevelt's 'Court Packing' Plan," *Supreme Court Review* (1966), p. 347.
6. The watershed decision was *NLRB v. Jones & Laughlin Steel Corp.*, 301 U.S. 1 (1937), wherein the Court upheld the National Labor Relations Act.
7. *United States v. Lopez*, 115 S. Ct. 1624, 1629 (1995) (citations omitted).
8. *Id.* at 1629–30.
9. *Id.* at 1630. Conceding that the majority ruling gives rise to legal uncertainty, Chief Justice Rehnquist noted that ever since *Marbury v. Madison* determined that it was the judiciary's duty to

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"say what the law is," such uncertainty has been inevitable. *Id.* at 1633 (citing *Marbury v. Madison*, 5 U.S. (1 Cranch) 137 (1803).

10. *Id.* at 1630. The Court stated that Congress may not use "a relatively trivial impact on commerce as an excuse for broad general regulation of state or private activities." *Id.* (citing *Maryland v. Wirtz*, 392 U.S. 183, 196 n. 27 [1968]).

11. *Id.* at 1630–31.

12. *Id.* at 1663 (Breyer, J., dissenting).

13. *Id.* at 1631–32.

14. *Id.*

15. *Id.* at 1632–33.

16. *Id.*

17. 460 U.S. 528, 546–47 (1985), *overruling National League of Cities v. Usery*, 426 U.S. 833 (1976).

18. *Lopez*, 115 S. Ct. at 1641 (Kennedy, J., concurring).

19. Lino A. Graglia, "Case Studies," *National Review*, June 26, 1995, p. 32.

20. David G. Savage, "High Court to Rule on Law Barring Guns Near Schools," *Los Angeles Times*, April 19, 1994, p. A17; Arthur Schlesinger, Jr., "In Defense of Government," *Wall Street Journal*, June 7, 1995, p. 14.

21. 18 U.S.C. § 228 (1995).

22. See *United States v. Mussari*, 894 F. Supp. 1360, 1368 (D. Ariz. 1995); *United States v. Schroeder*, 894 F. Supp. 360, 368-69 (D. Ariz. 1995); *United States v. Bailey*, 902 F. Supp. 727, 730 (W.D. Tex. 1995).

23. See *United States v. Hampshire*, 892 F. Supp. 1327, 1330 (D. Kan. 1995); *United States v. Sage*, 906 F. Supp. 84, 88-89 (D. Conn. 1995).

24. *United States v. Lopez*, 115 S. Ct. 1624, 1650 (1995) (Thomas, J., concurring).

25. *United States v. Pappadopoulos*, 64 F.3d 522 (9th Cir. 1995). In *Pappadopoulos*, the government argued that federal jurisdiction was conferred upon an arson prosecution because the private residence that was destroyed received natural gas from out-of-state sources. *Id.* at 525. The court held that this was an insufficient connection to interstate commerce. *Id.* at 527.

26. 18 U.S.C. § 844(i) (1995).

27. Roger Pilon, "Freedom, Responsibility, and the Constitution: On Recovering Our Founding Principles," *Notre Dame Law Review*, 68 (1993), p. 534.

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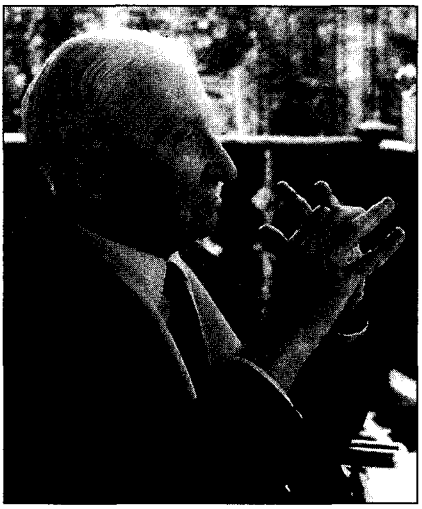

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December 1996

Two Yardsticks of Morality

The mystery of life is not a problem to be solved. We were born some time ago, but know not why. We shall die some time, but know not when, where, and why. All we may ask: "What is it every man is seeking in his life? What does any man want?"

He is seeking to be secure in his life, to be left alone so that he may become what he would like to become. To be free and independent, to be happy, to do what he pleases without restraint and coercion, that's probably the most important single force in the world today.

Yet this force faces the reality of complete dependence of every individual on the cooperation of other individuals. Our food, clothing, shelter, transportation, and education are provided by other individuals working together in meticulous division of labor. We depend on our fellowmen for our very survival. How free and independent can we be with neighbors all around us and coworkers with us for most of the day?

This question of the limits of freedom has occupied theologians and philosophers throughout the ages. Some tell us that modern society cannot tolerate much individual freedom because of a limitation of space and resources; others demand a wide margin of freedom because of the complexities and intricacies of man's cooperation and division of labor. One answer which is rather persuasive is based on the very definition of freedom itself. *If every man seeks to be secure, to be happy, to do what he pleases without restraint and coercion, and every man is to have the same measure of freedom, my own must be limited by everyone else's freedom as everyone else's is limited by mine.* I must always be mindful of others. I must not diminish anyone's freedom, I must not inflict harm on other people.

Most of us are considerate of the rights of our fellowmen. In our **personal** relations we try to be careful, thoughtful, courteous, and judicious. We may assist each other in many ways, and be Good Samaritans, offering aid to people in need; yet in our **political** lives we may act like thieves and highwaymen. We readily seize other people's income and property without remorse. Indeed, there seem to be two modes of behavior, two yardsticks of morality: one for our personal relations and one for the body politic.

Politics is strife of interests masquerading as contest of principles. To be a lawyer you must study law; to be a physician you must study medicine; to be a carpenter you must learn your trade; but to be a politician you need only to know your own interests and those of your electorate.

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As voters we ourselves live by a similar yardstick of morality in our political choices and decisions. *We seize as many benefits and privileges as we possibly can — always at someone else's expense.* And we impose as many restraints and restrictions on our fellow citizens as we possibly can.

When death comes to our neighbor, we may weep with the widow and her children. We honor the dead and comfort the living. We deem it our special duty that, if they need our help, we give it to the utmost of our ability and our power. But as members of the body politic we dispatch our estate sleuths and collectors to seize most of their belongings. For many years we expropriated as much as 77 percent of their possessions through the Federal Internal Revenue Service; at the present we seize only 55 percent. We grab various percentages through our state revenue departments.

As members of a political party, professional association, or a labor union, we seek our own good at the whole world's expense. We act like hungry tigers in our own cause, preying on widows and orphans, women and children, and various minorities by majority vote. We plunge into politics to make our fortune. We join an association to fight for license and privilege, and sign up with a labor union in order to earn more and work less. In a labor dispute we may man a picket line and use brute force against fellow workers, employers, and their customers.

The difference between personal and political lives is clearly visible in the behavior of a teamster who, as a faithful member of his congregation, attends mass on Sunday and, as a member of local 1678, blocks traffic on Monday, throws bricks at passing trucks, and slashes the tires of scab automobiles. Similarly, the organized steelworker, longshoreman, bus driver, or coal miner may attend church on Sunday but waylay independent workers on Monday. The hospital worker may care for the sick throughout most of the year but harm them at bargaining time.

In our personal lives we love our children. They are a mother's pride and a father's joy. We instruct them in virtue and labor and bind them to us through care and protection. Yet, as members of the body politic, we burden them with our debt, trillions of dollars, which we force them to pay or be dishonored in bankruptcy. We enjoy the productivity of the magnificent apparatus of production which our forebears left to us, yet it is insufficient for our enjoyment. Our deficits eat into the substance of the apparatus so that our children must work with less and subsist on less. We inflate and depreciate our currency, which erodes the purchasing power of all claims to money, including the savings of our children. As parents we may create a legacy for our children; as members of Medicare we drain it and fritter it away.

Indeed, there are two modes of behavior, two yardsticks of morality. In our personal lives we try to be charitable, which is to will and do what is just and right in every action. We may lend a hand to a stranger, stand by an orphan or widow, and give bread to the hungry. As members of the body politic we may act like a gang of highwaymen lurking in the highway for the purpose of robbing passers-by.

Hans F. Sennholz

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THE FREEMAN
IDEAS ON LIBERTY

Liberty and Privacy: Connections

by Joseph S. Fulda

If property is liberty's other half, privacy is its guardian. The right to privacy is essential to the preservation of freedom for the simplest of reasons. If no one knows what I do, when I do it, and with whom I do it, no one can possibly interfere with it. Intuitively, we understand this, as witness our drawing the curtains and pulling the window shades down when prowlers are about. The threat to freedom comes from both the criminal and the state, from any and all ways and means in which others forcibly overcome our will. Just as we do not want burglars casing our homes, we should fear the government's intimate knowledge of the many details of our daily lives.

Although equally critical to liberty, privacy rights, unlike property rights, are not enumerated in the Constitution (except for the fourth amendment's protection of "persons, houses, papers, and effects" from unreasonable searches), although throughout most of our history Americans have retained their right to privacy. Today, however, this right is insecure as the courts, except in a few cases, have been unwilling to find in privacy a right retained by the people as suggested by the ninth amendment's declaration and, despite *Lopez,*[1] have been unwilling to bar legislated invasions of privacy on the grounds that they are simply outside the scope of the few and well-defined powers granted by the Constitution to the Congress.

Nor is privacy from the snoop afforded that much more protection today. Few, indeed, are the invasions of privacy regarded as criminal, rather than tortious, and many are not actionable at all. Paradoxically, the argument has been that one has a liberty to invade the privacy of others, if there is no reasonable expectation for that privacy. That may sound reasonable, but it forms what engineers term a positive feedback loop: The more privacy is invaded, the less reason one has to expect privacy, and therefore the more it may be invaded. This faulty jurisprudential theory has single-handedly eviscerated tort law and rendered the only specific privacy protection in the Bill of Rights—that barring unreasonable searches—weaker and weaker. The proper response to this flawed reasoning is simple: People often expect, in the sense of justly demand, what they cannot expect, in the sense of predict. We may thus have a *right* to expect our privacy to be respected in the former sense, whether or not we may expect it to be respected in the latter sense. Expectations, in other words, must be defined against a *fixed* standard of reasonableness, not one programmed to continuously decay.

The most egregious governmental violation of our privacy lies with our tax system, which is frankly frightening, as the potential for the destruction of liberty arising from the reams of information returned annually to the government is vast. The government is told our family size, our occupation, our business associates—employers, employees, contractors, partners, and the like (and, if we report barter income, some of our friends, as well), our holdings (unless we realize neither profit

Joseph S. Fulda, a contributing editor of The Freeman, *has been published frequently in scientific journals, philosophical journals, mathematics journals, law reviews, and journals of opinion.*

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nor loss from their transfer and, also, gain no income while we continue our ownership), our schooling (unless it is not relevant to our work), and our provisions for retirement. Although no one may expect such dire consequences, the potential exists for such diverse state initiatives as population control programs, mandatory occupational tracks, massive interference with freedom of association, and enforcement of any or all of these by threat of loss of our holdings. Without this tax-related information, such interferences would be impossible. It is no accident that totalitarian systems in which there is no freedom whatsoever also tolerate no privacy. For Big Brother to act, he must know, and state surveillance with spies everywhere was a staple of the now-fallen totalitarian regimes.

Nor are these concerns the idle musings of a libertarian alarmist. Buried deep in the pages of the Federal Register is news that the IRS is implementing a massive new initiative, styled Compliance 2000.[2] At the heart of the initiative is "a huge database" with "personal information on every American" gathered from records kept by "other federal agencies, state and local authorities, private organizations and the media." The regulation giving notice of this massive new database, composed of records from cyberspace as well as more traditional sources, stated that Compliance 2000 is "exempt from the notification, access, and content provisions of the Privacy Act [1974]." In other words, "[t]his means that the IRS doesn't need permission to get information, doesn't need to show it to you, and doesn't need to correct the information even if it's wrong." Privacy groups such as EPIC (Electronic Privacy Information Center) and business groups such as the DMA (Direct Marketing Association) strenuously opposed the initiative, but it went forward anyway. The IRS hopes to look at what is consumed as a check on the self-reporting of what is produced, but the potential for abuse and, according to the DMA, for chilling legitimate businesses is obviously vast.

And, just as the state, in this initiative and more generally, threatens privacy, the market protects it. Consider the market institution of money. Money must be portable, durable, and limited in quantity but the value of money lies not only in what it can buy, but also in its protection of privacy. Under a barter regime, everyone I buy from knows what I produce, and everyone I sell to knows what I consume. In the cash economy, only my customers know what I produce and only those from whom I purchase know what I consume. That is why the black-market cash economies of the once-totalitarian regimes of Eastern Europe were synonymous with the bits and pieces of freedom that survived there. Of course, cash transactions protect privacy from the snoop as well as from the state. With my bank-issued MasterCard number, for example, any mail-order merchant can find out the sum of my purchases and cash advances, my last payment, my next due date and minimum amount due, and my credit line, for all it takes is the credit card number and my zip code, the former of which he must have to claim payment and the latter of which he must have to deliver the goods.

To a lesser extent, even the serial numbers on paper money abridge privacy, as those who engage in businesses the feds do not approve of, such as the drug trade, have found out. Bank holdings are even more vulnerable, because upon transfer of large amounts of cash from accounts (marked with an ever-present Taxpayer Identification Number), the government is immediately notified. The new industry now known as money-laundering provides nothing but privacy-protection services to the rather large market spawned by various federal prohibitions—and this simple fact holds, whatever one's opinion of the nature of the enterprises whose privacy is being protected.

Privacy is the great shield of freedom from interference. Everyone who savors freedom will champion the right to privacy. □

1. *United States v. Lopez*, 115 S. Ct. 1624 (1995). (Editor's note: see Eric Hagen, "Putting the Framers' Intent Back into the Commerce Clause," pp. 813-816 of this issue.)

2. The facts and quotes are from Farhan Memon, "Revealed: IRS Is Tracking You in Cyberspace," *The New York Post*, February 16, 1995, pp. 32, 38.

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THE FREEMAN
IDEAS ON LIBERTY

The Southern Tradition: Implications for Modern Decentralism

by Thomas Woods Jr.

The American tradition of decentralism has attracted adherents on both sides of the ideological spectrum and from all sections of the country. William Appleman Williams, a man of the New Left, actually preferred the Articles of Confederation over the Constitution, and insisted that the "core radical ideas and values of community, equality, democracy, and humaneness simply cannot in the future be realized and sustained—nor should they be sought—through more centralization and consolidation. These radical values can most nearly be realized through decentralization and through the creation of many truly human communities." Students for a Democratic Society leader Carl Oglesby, in his book *Containment and Change,* pointed with approval to such right-wing partisans of the old republic as Howard Buffett and Garet Garrett, and went so far as to declare that "in a strong sense, the Old Right and the New Left are morally and politically coordinate."

While decentralist and even secessionist sentiment was widespread throughout the North at least through the early nineteenth century—recall, for example, that former Secretary of State Timothy Pickering twice garnered support for a plan by which New England and New York would secede—these principles remain most closely associated with the American South. And yet these principles, while securely grounded in the Constitution, found their salience for the average Southerner less in their cogency in the realm of abstract theory than in the natural loyalties he felt toward the persons and institutions closest to him. Nathaniel Hawthorne, himself a Southern sympathizer, once remarked that a state was about as large an area as the human heart could be expected to love, and that the local and particular would always possess a stronger claim on the individual's allegiance than such a distant abstraction as "the Union." John Greenleaf Whittier once wrote of that exemplar of the old South, John Randolph of Roanoke:

> Too honest or too proud to feign
> A love he never cherished,
> Beyond Virginia's border line
> His patriotism perished.

Thomas Jefferson, among the most forceful advocates of localism in early America, pointed in 1791 to the decentralist Tenth Amendment as the cornerstone of the American republic: "I consider the foundation of the Constitution as laid on this ground: That

Mr. Woods, a founding member of the Southern League, is a doctoral candidate in history at Columbia University. This paper was delivered in June 1996 at the E.F. Schumacher Society Decentralist Conference held at Williams College in Massachusetts.

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'all powers not delegated to the United States, by the Constitution, nor prohibited by it to the States, are reserved to the States or to the people.'" Yet Jefferson's ideal political order went far beyond a recognition of mere *states'* rights: as Dumas Malone points out, Jefferson's ideal political order called for a far greater decentralization, in which self-governing *towns* would make virtually all their own political decisions without outside interference. He envisioned a hierarchical structure of town, county, state, and finally national government, and his goal was a system in which no entity of a "higher order" would infringe on the just prerogatives of one of a "lower order."

Despite the honorable lineage of states' rights advocates, led by the sage of Monticello, some people dismiss the states' rights argument, as framed by Southerners, as merely a grandiose justification for slavery. While the historical and constitutional arguments adduced in its favor cannot be explored here in any depth, it should be recalled that they were compelling enough to force even the Progressive historians Charles and Mary Beard to concede that the South "had rather the better of the argument." Moreover, as Professor Eugene Genovese reminds us, of the five Virginians who made the greatest intellectual contributions to the strict constructionist interpretation of the Constitution—George Mason, Thomas Jefferson, John Randolph of Roanoke, St. George Tucker, and John Taylor of Caroline—only Taylor could be described as proslavery, "and even he regarded it as an inherited misfortune to be tolerated, rather than celebrated."

Wartime propaganda aside, America's War Between the States was merely the American counterpart of a worldwide trend toward national centralization, as illustrated by the contemporaneous experiences of Italy, Germany, and Japan. In the United States, however, the saccharine language of justice and rights obscured the real significance of the war and Reconstruction. Yet even historian Vernon Parrington, no man of the Right, had reservations about the outcome of the war, which he considered "disastrous for American democracy, for it removed the last brake on the movement of consolidation, submerging the democratic individualism of the South in an unwieldy mass will." States' rights, he believed, had been not merely an abstract principle but "an expression of the psychology of localism created by everyday habit."

A Step in the Wrong Direction

For some Northerners, the subjugation of the South and the central state's subsequent efforts toward cultural and political homogenization were the first step toward realizing their own imperial ambitions for the United States. Secretary of War William Seward articulated this view most clearly. Seward held a distinctly millennial view of his country's role in the world, convinced that America had a mission to spread republicanism throughout the globe. In order for his plan to be realized, however, order would first have to be established at home and the unchecked power of the central state vindicated. It is no coincidence that within a generation after the last occupying forces left the South at the end of Reconstruction, the United States had embarked on its career of empire.

The revolution that began in the 1860s has progressed with a cold and relentless logic, reducing historic communities to mere administrative units of the central state. Jefferson warned of the dire consequences if all decision-making power became centralized in Washington. It hardly needs saying that this centralization has come to pass; worse still, more and more legislative functions are now being delegated to *global* institutions. Ordinary citizens have been known to beat city hall from time to time, but their prospects for challenging a decree of the World Trade Organization are slight.

Thinking Locally, Acting Locally

What steps can be taken to reverse this trend? Here are a few suggestions:

1. We must revive local control as an issue in our national political discourse. From school curricula to crime control, we should insist that, regardless of our own positions on these issues, they are properly decided at the

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local level. Of course, under such a Jeffersonian regime not all communities will adopt policies that suit our personal tastes. But if we are serious about restoring local control, we must resist the temptation to interfere in the affairs of communities to which we do not belong.

2. If local control is to have any meaning, the jurisdiction of the imperial Supreme Court must be drastically curtailed. The surprisingly short amount of time the Framers spent discussing the judiciary at the Constitutional Convention suggests their own view of its relative importance. Alexander Hamilton described it as the "least dangerous" of the three branches, and Jefferson's opposition to the Court's imperial designs was notorious. Never did the men of the early republic imagine that it would play the quasi-legislative role it has assumed in the twentieth century.

The jurisdiction of the Supreme Court can be restricted with relative ease. Article III, Section 2, of the federal Constitution provides several relatively minor categories of law in which the Court shall enjoy original jurisdiction. In most cases, however, "the Supreme Court shall have appellate Jurisdiction ... *with such Exceptions, and under such Regulations as the Congress shall make*" (emphasis added). At any time, therefore, a simple majority of Congress can strip the Court of jurisdiction in a given matter and return usurped legislative prerogatives to the people and their representatives.

Ample precedent exists for such measures. After the *Dred Scott* decision, abolitionists spoke of stripping the Court of its appellate jurisdiction in all cases involving slavery. Two decades later, when it became clear that in the case of *ex parte McCardle* the Supreme Court would find the Reconstruction Acts unconstitutional, Congress passed an act in 1868 removing the Court's jurisdiction over such issues, in accordance with Article III, Section 2. (When the case was reheard in 1869, the Court acknowledged the right of Congress to take this action.) In 1935, after handing down its ruling in *Nortz v. United States,* the Court seemed on the verge of declaring unconstitutional the government's repudiation of the gold standard; Congress promptly passed a law removing the Court's jurisdiction in this area. In the wake of the apportionment cases of the early 1960s, the House passed a measure, defeated in the Senate, that would have deprived the Court of its jurisdiction there as well. In 1979, Senator Jesse Helms authored a resolution that would have done the same thing in matters of state laws regarding voluntary school prayer. The list could go on.[1]

That these are precedents of which we would uniformly approve is doubtful: that they *are* precedents, however, is certain. It is worth noting in this connection that while the Confederate Constitution of 1861 provided for a Supreme Court, public opinion was so antagonistic toward such an institution that the implementing legislation was never passed. The Confederate legal order remained one of state judicial supremacy.

3. All U.S. military intervention must be opposed on *a priori* grounds. The example of Secretary Seward reminds us that our most ardent global crusaders tend to be those least concerned with, and often actively hostile toward, the American decentralist tradition. To the extent that such men give any thought to American regionalism and federalism at all, they see in foreign intervention an effective way of cementing the bonds of union at home. The political scientist Bruce Porter, in his recent *War and the Rise of the State* (1994), comes close to suggesting that the central direction and planning occasioned by war—to say nothing of the massive ideological propaganda that has become a hallmark of modern warfare—might be necessary to lift Americans out of their ethnic and regional parochialisms in the post-Cold War era. This tactic would exemplify what the libertarian journalist Felix Morley called "nationalization through foreign policy."

Blanket opposition to foreign intervention will win us no popularity contests. Television and newspapers reserve their most intemperate name-calling and opprobrium for those whose only crime is to uphold the dictum of John Quincy Adams—that America is a well-wisher of liberty everywhere, but defender only of her own. That the distinctly honorable position of maintaining friendly relations with

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foreign nations and opposing our own government's murderous military adventures should have incurred the "isolationist" smear is one of the great propaganda triumphs of our century. Recall that the nineteenth-century British classical liberal Richard Cobden, who opposed every instance of British adventurism in his own lifetime, was referred to not as an isolationist but, appropriately, as the "International Man."

Describing the Republican Party of his day, John Randolph listed the following as its first principles: "Love of peace, hatred of offensive war, jealousy of the state governments toward the general government." This, in a nutshell, is the political program of the American decentralist. Writing in *Chronicles,* Bill Kauffman summed up the common interest in localism shared by grassroots activists of widely varying perspectives: "The new American populism has 1,000 offshoots, but a Southern League partisan in Alabama and an anti-nuclear dump activist in Allegheny County, New York, are comrades in the nascent movement that is opposed, as Jerry Brown said in *Chronicles,* to 'a global focus over which we have virtually no control.'" In that spirit, decentralists across the political spectrum should set aside mutual recriminations and remember that our real foe is the central state, whose imperial designs bode ill for the future of what Edmund Burke called the "little platoons" of civilization. □

1. See the discussion in Forrest McDonald, *A Constitutional History of the United States* (New York: F. Watts, 1982).

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THE FREEMAN
IDEAS ON LIBERTY

The Sexual Harassment Lemon Law

by Sarah J. McCarthy

Mitsubishi Motors, facing what is threatening to become the biggest sexual harassment case in history, gave 3,000 of its employees a day off with pay to demonstrate against a lawsuit filed by 29 fellow employees with the Equal Employment Opportunity Commission.

One of the protesters, Kathleen McLouth, 42, a parts-deliverer at the Mitsubishi Motors plant near Chicago, exhibited more common sense than the collective wisdom of the National Organization for Women, Congress, and the U.S. Supreme Court when she said, "Sexual harassment has got to exist—you can't have 4,000 people and not have it exist."

This does not mean, of course, that McLouth wants sexual harassment to exist, or that she approves of it, but that she knows it will recur as inevitably as crabgrass or stinkweed. When weeds or pests appear on the scene, most of us have learned the big lesson of Vietnam—that it's better not to destroy a village we're trying to save. When you call the Weed-B-Gone man, you don't expect him to blow up your house.

Unfortunately, when it comes to sexual harassment law, Congress and the Supreme Court have concocted a cure that's worse than the disease. A sort of sexual harassment hysteria has erupted because of a definition so broad and so vague as to cause people like Bernice Harris, 58, a cashier in the U.S. Senate cafeteria, to be accused of harassment for calling her customers "honey" and "sugar." Being called "baby," complained Christopher Held, an employee of Senator Mitch McConnell, was "real bothersome."

In the days before $300,000 fines could be levied for a "sweetie" in the cafeteria line, such petty slights would have been overlooked. To ignore a slight nowadays is like tossing out a winning lottery ticket.

With global sales of $38 billion, Mitsubishi employs workers who are among the best paid in the auto industry, but has only one assembly plant in the United States—the one being sued for sexual harassment. "I get fair wages. I get fair benefits. There's an opportunity for me to move up," says Jane Hieser, a 43-year-old body shop worker. "I get better backing here as a woman than I've ever gotten before."

Hieser sounds like the women I heard testify at the trial of a bartender at the former Pittsburgh Sports Garden, a nightspot frequented by Steelers, Penguins, Pirates, and their fans. Many women said it was the best place they'd ever worked before it collapsed under the weight of a sexual harassment suit. Though the owners knew nothing about the dispute between a bartender and a waitress, the small business closed down the day the guilty verdict was announced.

Ms. McCarthy, co-owner of Amel's Restaurant in Pittsburgh, has written on sexual harassment issues for Forbes, Regulation, Restaurant Business, *and the* University of Wisconsin's Small Business Forum.

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Sexual harassment lawsuits can be job crushers, and if the damages are big enough they can destroy a company. The way the current sexual harassment law is constructed, the company and totally innocent employees pay a bigger price than the actual harasser.

The economic threat to a company through a class-action lawsuit is often so large as to border on extortion, but the threat of economic extinction is only part of the picture. The employees of Mitsubishi are in for a rough, ugly ride where their sexual histories, family relationships, and workplace interactions are dragged into the courtroom like a huge pile of dirty laundry. Every workplace comment, joke, flirtation, and relationship will be grist for the mill. The ugly soap opera could end relationships and marriages. The media, lawyers, and sexual harassment crusaders will pick over the details of workers' lives like vultures feeding on a carcass. Some of those involved will profit mightily.

He Said, She Said . . .

Just as in a family quarrel or a divorce, no one will ever agree on what really happened—whether the women involved were damaged, whether they did or didn't bring the harassment on themselves, or whether they were just trying to win some easy money. Their character and the reputations of witnesses on both sides will be impugned. Careers will be derailed.

In the end the Mitsubishi plant may be prosperous enough to survive this lawsuit. But given the near impossibility of monitoring the sexual speech of over 4,000 workers who may be dating, flirting, breaking up, or fighting, it's likely they may decide against opening additional assembly plants in the United States. The necessity of extensive monitoring by employers who are trying to protect themselves from sexual harassment lawsuits should raise concerns about the chilling effects on free speech and freedom of association. The silencing of workplace clowns, elimination of social gatherings, and implementation of no-dating policies are the usual outcomes of sexual harassment lawsuits.

If the case goes to trial, it's a near certainty that the plant's culture will be destroyed. Employee will be pitted against employee, man against woman, friend against friend, and everyone will blame someone else while the real culprits—the National Organization for Women, the trial lawyers' lobby, and the Congress of the United States, who were the architects of this incendiary law—will remain self-righteously above the fray.

There are, of course, many more sensible ways to curb sexual harassment, or any other kind of harassment, in the workplace. Counseling and mediation, backed up by escalating fines and firings if the problem remains unresolved, could actually induce more women to report earlier. At present many hold back complaints because the fallout is so draconian. Alternative, common-sense solutions, however, lack the glories and moral victories sought by sexual harassment crusaders and their big-government allies. There would be no lottery-size wins and banner headlines for the crusaders and their lawyers. Resolving a problem through the sensible-shoes approach is not as thrilling as hobbling a multinational corporation.

After the crusaders have marched off to the next glorious battle, Kathleen McLouth and Jane Hieser may be left like soot-covered soldiers on a deserted battlefield without a workplace and without jobs. Defective cars that roll off the Mitsubishi Motors assembly plant are subject to recall under the lemon law. It's time to repair the sexual harassment lemon law. □

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THE FREEMAN
IDEAS ON LIBERTY

A Property Rights Parable for City Dwellers

by Richard Pombo and Joseph Farah

Imagine you have just purchased a two-bedroom condo in New York City. You had saved money for ten years to buy it. It is conveniently located and has a beautiful view. You plan to turn one of the bedrooms into a home office for your consulting business. You paid $300,000 for the condo, but you are thrilled to have it.

After signing the check for the down payment, you are about to move in your furniture, computer, and personal effects. You hear a knock at the door. Two armed agents from the U.S. Fish and Wildlife Service (FWS) want to talk to you about your condo and your plans to run a consulting business from that second bedroom. You see, your condo has been designated as critical habitat for the endangered Manhattan cockroach.

The Manhattan cockroach once roamed freely all over the island of Manhattan, but human activities like the construction of high-rise condominiums, subways, roads, and X-rated movie theaters have reduced the habitat of the cockroach by over 98.5 percent. Their numbers have fallen drastically, according to a study done by a New York University graduate student in his apartment on 43rd Street and Ninth Avenue. Last August, he discovered 20 roaches in a three-hour period. This year he could locate only ten. On the basis of these data, he requested that the roach be listed as an endangered species because of the 50 percent reduction in its population. Since no one submitted contrary claims to the FWS, it used these "best available data" and made the listing.

As a result, the FWS agents say that your second bedroom must be set aside for the cockroach. You are not allowed to put any furniture, clothes, or computer equipment in that room. You may not vacuum the floor in that room, as that might eliminate the roach's food supply. If you enter the room, you must be careful not to step on, harass, or intimidate any roaches. Turning on the light suddenly, for instance, frightens the roach and causes it to scurry away. If you do any of these things, it will be considered an unauthorized "taking" of the roach and you will be prosecuted to the full extent of the law—a year in prison and a $100,000 fine for each harassed roach.

In addition to setting aside your second bedroom for the roach, you must also allow for a "migration corridor" through your kitchen so that the roach may move from one habitat (your bedroom) to its next nearest habitat (the bedroom of the family next door). The agents inform you that the family next door used a vacuum cleaner in the roach's habitat, accidentally sucking up five roaches into the vacuum cleaner bag. The FWS

Representative Pombo of California is chairman of the task force charged with reforming the Endangered Species Act. Mr. Farah is former editor of the Sacramento Union *and executive director of the Western Journalism Center.* *This article is adapted from* This Land is Our Land, *published September 1996 by St. Martin's Press.*

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brought charges, and when the family fought prosecution in court, the government subpoenaed their tax returns, immigration records, and old car rental receipts to see if they were good citizens. The family soon complied with all the provisions of the Endangered Species Act.

Being a good citizen yourself, you agree to the conditions, believing that you can live in harmony with one of God's creatures. Weeks pass, and you notice that the roaches are not content to remain in their habitat or in their migration corridor, but tend to get up into your grocery shelves. Your children are afraid to move around in the condo and the smell from the second bedroom is getting pretty bad. Since you cannot operate your consulting business from home, you rent office space. But the rent is so high, you soon have to give it up.

You decide that your condo is not worth the trouble, and undertake to unload it. You go to a real estate agent to put it up for sale, but discover that because your condo was declared critical habitat for the Manhattan cockroach, no one wants to live there. The best available offer is $25,000 from the Save the Cockroach Association of Manhattan (SCAM), a nonprofit organization that buys up cockroach habitat. It bought your next door neighbor's condo for $25,000 and sold it to the federal government the next day for the original pre-habitat price of $300,000.

You find this proceeding a bit on the unethical side, but just before you take the $275,000 loss, your upstairs neighbor's waterbed bursts and floods your condo, completely annihilating the population of roaches. Believing it to be a sign from heaven, you begin to mop up in order to begin your life anew when you hear a knock at the door. There you find two armed agents of the U.S. Army Corps of Engineers. It appears your condo has just been designated a wetland.

Sound far-fetched? While admittedly a composite of government abuses and environmental horror stories, misfortunes very similar to those sketched above have actually happened to residents of western states. And while no cockroaches were involved, property owners and their families have had their lives and livelihoods ruined by endangered flies, beetles, rats, and shellfish. □

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THE FREEMAN
IDEAS ON LIBERTY

William Ewart Gladstone's Great Campaigns for Peace and Freedom

by Jim Powell

William Ewart Gladstone dominated British politics in the heyday of classical liberalism. He entered Parliament at age 23, first held a cabinet post at 34, and delivered his last speech as a Member when he was 84. He served as Prime Minister four times.

Nobel Laureate F.A. Hayek ranked Gladstone among the greatest classical liberals. Lord Acton believed Gladstone's "supremacy was undisputed." Paul Johnson declared "there is no parallel to his record of achievement in English history." One might add there are few parallels anywhere.

As Chancellor of the Exchequer in four ministries, Gladstone fought the most powerful interest groups. He helped abolish more than 1,000—about 95 percent—of Britain's tariffs. He cut and abolished other taxes year after year. Imagine, if you possibly can, our income tax with a single rate of 1.25 percent. That's what was left of the British income tax when Gladstone got through hammering it down. He wasn't satisfied, because he wanted to wipe it out.

Gladstone believed the cost of war should be a deterrent to militarism. He insisted on a policy of financing war exclusively by taxation. He opposed borrowing money for war, since this would make it easier, and future generations would be unfairly burdened.

Gladstone's most glorious political campaigns came late in life: to stop British imperialism and to give the oppressed Irish self-government. Gladstone showed that even in such lost causes, friends of freedom had the strength and courage to put up a tremendous fight that would never be forgotten.

To be sure, Gladstone wasn't a perfect hero. Having matured in an era when his government had limited power and committed few horrors, Gladstone figured it could do some good. For instance, he approved taxes for government schools. But part of the problem was that government revenues soared as Gladstone cut tariffs and other taxes, and political pressure became overwhelming for government to spend some of the loot.

Despite his errors, Gladstone towered above his rivals. His most famous opponent was Benjamin Disraeli, the Tory who promoted higher taxes, more powerful government, and imperial conquest. Gladstone's liberal rivals were mostly fans of Viscount Palmerston, best known for his bullying of weaker countries. During the late nineteenth

Mr. Powell is editor of Laissez Faire Books and a senior fellow at the Cato Institute. He has written for the New York Times, *the* Wall Street Journal, Barron's, American Heritage, *and more than three dozen other publications.* *Copyright © 1996 by Jim Powell.*

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century, Gladstone's chief Liberal rival was Joseph Chamberlain, a socialist who became a vigorous imperialist. Without Gladstone's influence, there probably would have been fewer gains for liberty, and the losses probably would have come faster.

Gladstone's enduring contribution was to stress the moral imperative for liberty. Influential British philosophers Jeremy Bentham and John Stuart Mill had almost banished morality from political discussion, as they touted the greatest-good-for-the-greatest-number principle, but Gladstone brought out the moral dimension of taxes, trade, everything. "Whatever he did," remarked historian A.J.P. Taylor, "was a holy cause." Gladstone's moral fervor was a key to his popular appeal. As historian J.L. Hammond observed: "It is safe to say that for one portrait of anybody else in working-class houses, there were ten of Gladstone."

He accomplished much, in part, because he had prodigious energy. He worked 14-hour days to become England's leading expert on government finance. In his spare time, Gladstone wrote books, mostly about Greek and Roman literature (he loved Homer). He enjoyed riding horses. Chopping down trees was a favorite pastime. He went on long walks—up to 25 miles—well into his 70s. Earl Spencer, a Liberal friend, remarked that Gladstone was "governed by the most intense impulsiveness and enthusiasms."

Gladstone gained strength from his Anglican faith and happy home life. He married Catherine Glynne on July 25, 1839, and they remained together more than a half-century, until his death. They had four sons and four daughters. They lived at Carlton House Terrace (London) and at Hawarden, the turreted castle where she was born, on a hilltop overlooking Liverpool. There Gladstone had a library which grew to 27,000 books. Hawarden was heavily mortgaged to help finance his brother-in-law's business venture that failed, and Gladstone spent years paying down debt and saving the property for the family.

Gladstone took charity to heart, even when this exposed him to ridicule. For some 40 years, he spent about three nights every week working to help London women quit prostitution. He helped establish the Church Penitentiary Association for the Reclamation of Fallen Women, which raised money for homes where these women could turn their lives around. He started the Newport Home of Refuge (Soho Square) and the St. Mary Magdalen Home of Refuge (Paddington). He served on the Management Committee of the Millbank Penitentiary, where arrested prostitutes were sent. He often worked with his wife, and together they established the Clewer Home of Mercy. He spent £83,500 on these missions.

Gladstone's commanding manner made him seem like a giant, yet he was only average height—5 feet, 10¾ inches tall—with broad shoulders, a pale complexion, and large eyes which were nearly black. During his 50s, his thick black hair thinned and began to turn gray. He let it grow around his face in the popular bewhiskered style. He had a strong, musical voice that was a major asset for him as a public speaker.

Although he was sometimes long-winded—one of his speeches went on for five hours—he could rise to great eloquence. He combined a mastery of facts with an ability to inspire moral indignation. During one election campaign, he faced a hostile crowd of 20,000, then delivered a stirring two-hour speech that climaxed with a unanimous vote of confidence.

Groomed for Greatness

William Ewart Gladstone was born December 29, 1809, at 62 Rodney Street, Liverpool. His father, John Gladstone, was a Scottish politician and investor owning plantations in the West Indies. His mother, Anne Robertson, was from Stornoway.

Gladstone had a very proper education, initially learning from a local clergyman, then at age 11 attending prestigious Eton, where he acquired a lifelong taste for Greek and Latin literature. In October 1829, he enrolled at Christ Church, Oxford. Following his studies there, he broadened his horizon by traveling around Italy for six months.

His father was determined that William become a statesman, so a family friend, the

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Duke of Newcastle, nominated him as a candidate to represent Newark in Parliament. He won the election in December 1832. The following year, he began studying law at Lincoln's Inn—as his future rival Benjamin Disraeli had already done.

Gladstone started his career a thoroughgoing Tory (conservative). In his first speech, delivered June 3, 1833, Gladstone claimed his father's slaves were healthy and happy. He favored gradual emancipation with compensation paid to owners. On July 8, 1833, he talked about Ireland, opposing a bill that would divert some Church of Ireland funds for secular purposes.

Tory Robert Peel, founder of the Conservative Party, became First Lord of the Treasury and Chancellor of the Exchequer and, impressed by Gladstone's energy and competence, named the young man a Junior Lord of the Treasury. Gladstone expressed his opposition to the income tax, but it was introduced in 1842 to offset anticipated lower revenues resulting from tariff reductions. The ministry was soon dissolved, but Gladstone was clearly prime talent. Two years later, he accepted a post as Undersecretary for War and the Colonies.

Gladstone was always a devout supporter of the Church of England, and in 1838 he wrote *The State in Its Relation with the Church*. He expressed the high Tory view that there could be only one religion in society, and government must enforce it. The book is remembered mainly because Thomas Babington Macaulay wrote an 1839 *Edinburgh Review* essay tearing it apart. He referred to Gladstone as "the rising hope of those stern and unbending Tories." Considering the corrupt and brutal history of governments, Macaulay thought it was preposterous to imagine that politicians could uphold moral standards, and he believed attempts to enforce any kind of orthodoxy must provoke social conflict. Gladstone wrote Macaulay, thanking him for "the candour and single-mindedness of the review."

Pledged to uphold the corn laws (grain tariffs), Peel became Prime Minister on August 31, 1841, and he chose Gladstone as Vice President of the Board of Trade and Master of the Mint. Gladstone would rather have had responsibility relating to religion, but he resolved to acquire the needed expertise, and soon he knew more about government finance than anybody else. By 1843, he was appointed President of the Board of Trade.

Free trade became a hot issue as textile entrepreneurs Richard Cobden and John Bright campaigned against the corn laws for raising the price of bread and contributing to human misery. Gladstone resisted demands that the corn laws be repealed, while working to cut tariffs. But he resigned from the ministry and Parliament on January 28, 1845, because he disagreed with Peel's proposal to give Ireland's Maynooth College more money for educating Catholic priests. In December, he rejoined the ministry—although he remained out of Parliament—as Secretary of State for the Colonies.

Benjamin Disraeli

Meanwhile, Benjamin Disraeli came to the fore as a member of Parliament. For years, he was known as a dandy who wore jeweled shirts and rings over his gloves. He was born in December 1804, the son of a Jewish man of letters who had converted to Christianity. Disraeli had enormous political ambitions. He was seldom concerned about moral principles. He denounced the free-market views of Adam Smith, and he despised the emerging middle classes as materialistic. An author of popular political novels, he urged young aristocrats to defend the old agricultural order from the influence of merchants and manufacturers. He felt most comfortable among protectionist aristocrats, despite the anti-Semitism of many—his protectionist friends opposed one bill after another to admit Jews into Parliament. While Disraeli favored equal rights for Jews, he rejected the principle of religious toleration. He engaged in blatant flattery, and this helped him become Queen Victoria's favorite minister. Disraeli's taste for high living exceeded his modest means, and he spent much of his life struggling to avoid embarrassment because of overdue debts he owed moneylenders, tailors, hosiers, upholsterers, and others.

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Disraeli emerged as a name to reckon with during debates about the corn laws. His speeches were noted for their controlled low-key delivery, clever phrasing, and savage personal attacks. He defended the corn laws as "a great system." After Peel had come out for free trade, Disraeli called him "a burglar of others' intellect . . . from the days of the Conqueror to the termination of the last reign, there is no statesman who has committed larceny on so great a scale."

On June 25, 1846, Peel pushed through the repeal of the corn laws, and Tories were furious at his betrayal. Disraeli spearheaded efforts to bring down Peel's government, and on the very day that the corn laws were repealed, the House of Lords rejected Peel's "coercion bill" to suppress violence in Ireland. Four days later, Peel resigned. Disraeli began the long process of rebuilding the Tory party.

Although Gladstone was a devoted Peelite Tory, he instinctively rose to the defense of oppressed people. In 1840, he had spoken out against the British government's Opium War, intended to help politically connected merchants sell opium in China. After Gladstone had visited Naples in 1850 and discovered that Ferdinand II, King of the Two Sicilies, had some 20,000 political prisoners, he wrote an angry letter which circulated throughout Europe.

Disraeli, who had become Tory Chancellor of the Exchequer in February 1852, proposed a budget which supposedly would be balanced by doubling taxes on houses. Gladstone delivered a powerful speech against the budget, intensifying their rivalry, the most memorable in British politics since that between William Pitt the Younger and Charles James Fox. The Tory ministry resigned on December 17, 1852.

Gladstone as Chancellor of the Exchequer

Gladstone was appointed Chancellor of the Exchequer in the coalition government of Lord Aberdeen, and in April of 1853 he delivered his first budget speech, a five-hour review of the numbers. He called for income tax cuts, repeal of the soap tax and reductions in taxes on tea and advertisements. Gladstone's tax and spending cuts were delayed by the Crimean War between Russia and Turkey, which Britain entered to counter Russia's power. Gladstone had gone along with it, while Cobden and Bright lost their Parliamentary seats because of their opposition to it.

By 1859, Gladstone was serving as Chancellor of the Exchequer in Lord Palmerston's ministry. He raised some taxes to cover the budget deficit, a legacy of the Crimean War. The following year, he approved Cobden's plan to negotiate a trade liberalization treaty with France, and it inspired a trend toward freer trade throughout Europe. Gladstone proposed cutting tariffs on many kinds of food and eliminating tariffs on paper. Disraeli led Tory opposition to these cuts, and a number of proposals were defeated by the Tory-dominated House of Lords, but overall Liberals prevailed, and the number of tariffs was cut from 1,163 in 1845 to 460 in 1853 and 48 in 1859—only 15 of any consequence.

In 1861, Gladstone hit on an ingenious Parliamentary tactic. Rather than have the House of Lords consider proposals individually, he bundled them into a single money bill, because the House of Lords couldn't amend money bills. They could only vote whether to approve them as presented. The tactic succeeded, and the paper tariff became history.

In 1862, Prime Minister Palmerston, who relished overseas military adventures, demanded that more money be spent on fortifications, so it became tougher for Gladstone to cut taxes and government spending, but he did manage to abolish the tariff on hops—a boon for brewers. The next year, he cut the income tax. By 1864, he secured further income tax cuts and lowered tariffs on sugar. In 1865, he again cut the income tax and the tariff on tea, and he halved the tax on fire insurance. In 1866 he cut tariffs on bottled wine and livery cabs, and abolished tariffs on timber and pepper. He announced that trade liberalization treaties had been negotiated with Austria, Belgium, and the German states.

Gladstone's policies were a stupendous triumph. Every effort to cut tariffs and other

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taxes involved a terrible fight with affected interest groups, yet he persisted. He rejected demands to have graduated income tax rates. He brought the income tax down from 10 percent during the Napoleonic Wars and 6.6 percent during the Crimean War to 1.66 percent. And the more he cut the cost of government, the more people prospered. In 1859, imports were £179 million, and exports were £155 million. A decade later, imports soared to £279 million, while exports hit £237 million. "The improved living standards of manual workers," reported economic historian Charles More, "were paralleled by improved living standards both for the middle class and for the very rich."

The government was awash with money from taxes that remained, and Gladstone used surpluses to further cut or abolish taxes. Still, revenues poured in, and he couldn't resist all the pressures to spend it on new government programs. Gladstone yearned to abolish the income tax because of his concern that it could make possible much bigger government.

Expanding the Franchise

Working with John Bright, he became a powerful advocate for expanding the franchise. In 1864, he startled many people by declaring: "I contend that it is on those who say it is necessary to exclude forty-nine fiftieths of the working classes that the burden of proof rests. Every man who is not presumably incapacitated by some consideration of personal unfitness or political danger, is morally entitled to come within the pale of the constitution." Disraeli scoffed that Gladstone "revived the doctrine of Tom Paine."

In March 1866, Gladstone backed a bill to expand the franchise, but it was defeated, and Lord John Russell's Liberal government resigned. Gladstone became official leader of the Liberals. Tory Lord Derby formed a government, and Disraeli got a more generous version of the bill through the House of Commons—it added about a million people to the voter rolls. Disraeli did it by gracefully accepting a succession of Liberal amendments, which eroded much opposition. In February 1868, Prime Minister Derby resigned, and he was succeeded by Disraeli.

The Irish Question

Gladstone focused on injustices in Ireland. The situation there had festered for centuries and became inflamed after 1800 when Prime Minister William Pitt, fearing that the French Revolution would spread to the British Isles, persuaded Parliament to approve the Union with England. Ireland would be ruled by Parliament, from which Catholics were excluded. The Act of Union provided that there would be an established Church of Ireland—Anglican—for which Irish Catholic peasants were to pay taxes. Charles James Fox, Pitt's great rival, had warned "that we ought not to presume to legislate for a nation with whose feelings and affections, wants and interests, opinions and prejudices we have no sympathy"—and Gladstone resolved to move his compatriots toward Irish independence.

"Ireland, Ireland!" Gladstone had written as early as 1845, "that cloud in the west, that coming storm, the minister of God's retribution upon cruel and inveterate and but half-atoned injustice! Ireland forces upon us those great social and great religious questions—God grant that we may have courage to look them in the face, and to work through them."

In 1868, Gladstone introduced a resolution that poor Catholic peasants shouldn't be taxed for the Church of Ireland. Disraeli objected that an attack on the Church of Ireland invited attacks on the Church of England. The House of Commons adopted the resolution, and Disraeli offered his resignation. Liberals won the subsequent elections and Gladstone became Prime Minister in December 1868.

Prime Minister Gladstone

Then came major Irish reforms. In 1869 Parliament enacted his Disestablishment Bill for the Church of Ireland; in 1870, his Irish Land Act. It gave force of statute law to "Ulster custom." Namely, a paying tenant farmer, evicted from land he worked, was entitled to compensation for the eviction and

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for buildings and other improvements he made. This Land Act overturned previous laws that denied tenants any claim to compensation for their improvements, but it didn't help many tenants, because most evictions were for nonpayment of rent. What the Land Act did do was make it easier for subsequent governments to interfere with private property rights.

Gladstone pursued one reform after another. He opened Oxford and Cambridge to Nonconformist Protestants, Catholics, Jews, and even atheists. He streamlined England's court system—it had been necessary for many litigants to file suit in two courts simultaneously. He established competitive examinations, rather than wealth or family connections, as the primary basis for advancing in the government bureaucracy and the armed forces. Gladstone's Ballot Act enabled people to vote in secrecy, without intimidation. And of course, Gladstone did as much as he could to further cut taxes and government spending.

Gladstone's ministers promoted some measures calling for more government intervention in the economy. Incredibly, for a man devoted to separating church and state, he approved William Forster's Education Act of 1870, which authorized taxes to finance state power over education.

Disraeli hit Gladstone at every turn. "Her Majesty's new Ministers proceeded in their career like a body of men under the influence of some deleterious drug," he snarled. "Not satiated with the spoliation and anarchy of Ireland, they began to attack every institution and every interest, every class and calling in the country."

After six years as Prime Minister, Gladstone had offended a lot of powerful interest groups, and his popularity faded. In the February 1874 election campaign, he proposed abolishing the income tax, but the rate was only 1.25 percent—apparently not enough for people to get exercised about—and Liberals were routed. Gladstone's "Great Ministry" ended, and he retired as leader of the Liberals.

Disraeli became Prime Minister. He was 70 years old, in frail health and desolated by his wife's death, but he made the most of his opportunity at the top—after a quarter-century rebuilding the Tory party. Disraeli pushed through Factory Acts in 1874 and 1878, increasing government regulation of business. Disraeli's Trade Union Act essentially put labor union bosses above the law. With the Sale of Food and Drugs Act, Disraeli's government assumed responsibility for the health of people. The Artisan's Dwelling Act authorized local governments to take private property for housing projects.

More distressing for Gladstone, Disraeli promoted imperialism. He spent more money on armaments. He got involved in the war between Russia and Turkey. He occupied Cyprus. He had British forces invade Transvaal, South Africa, and Kabul, Afghanistan. He guaranteed to protect three states on the Malay Peninsula. He claimed about 200 Pacific islands. He acquired controlling interest in the Suez Canal—a move which afforded more secure access to British India but became an 80-year occupation of Egypt, including wars, big military expenditures and political embarrassments. Disraeli flattered Queen Victoria by naming her Empress of India, and she cherished the thought that the sun never set on the British Empire. Gladstone was outraged.

Events in the Mideast brought Gladstone back into the public arena. Between April and August 1876, Turkish forces slaughtered some 12,000 rebellious Bulgarian Christians. Disraeli played this down, because he supported the Turkish empire to offset Russian influence. Gladstone insisted that moral standards apply to everyone, including allies. Gladstone wrote a pamphlet, *The Bulgarian Horrors and the Question of the East*, which came out in early September and soon sold 200,000 copies. Disraeli dismissed the pamphlet as "passionate, vindictive, and ill-written." Disraeli added: "There may be more infamous men but I don't believe there is anyone more wicked."

To Gladstone, imperialism inevitably meant more burdens on British taxpayers and more risks of war. On May 7, 1877, he declared: "Consider how we have conquered, planted, annexed, and appropriated at all the

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points of the compass, so that at few points on the surface of the earth is there not some region or some spot of British dominion at hand. Nor even from these few points are we absent. . . . And then I ask you what quarrel can arise between any two countries or what war, in which you may not, if you be so minded to set up British interests as a ground of interference." Gladstone went on to warn against the arrogance of good intentions which end up squandering blood and treasure in foreign wars.

Russia and Turkey negotiated a treaty, but Disraeli objected because Russia gained the upper hand. He claimed it was Britain's business to push back the Russians, and this was his aim at an international diplomatic conference held in Berlin, June 1878. He succeeded and enjoyed a hero's welcome back in London. Gladstone denounced Disraeli's imperialist pretensions as "all brag . . . prestige . . . jingo."

Disraeli scorned Gladstone as "a sophisticated rhetorician, inebriated with the exuberance of his own verbosity, and gifted with an egotistical imagination that can at all times command an interminable and inconsistent series of arguments to malign an opponent and glorify himself."

Disraeli's imperialist policies, however, brought unwanted complications. He tangled with the Emir of Afghanistan, who refused to let British diplomats into the country. In South Africa, about 800 British soldiers were killed by Zulus. European pressures led Disraeli to ask for an expanded British naval presence in the Mediterranean.

Because of all this, as Prime Minister, Disraeli hiked taxes by £5 million and incurred £6 million of budget deficits versus Gladstone's previous five years marked by £12 million of tax cuts and £17 million of budget surpluses.

Since imperialism was popular, Gladstone recognized he couldn't stop it by following the traditional practice of debating political issues only within Parliament. He had to win over voters. Which constituency? On November 24, 1879, he launched a campaign for a Parliamentary seat in Midlothian, Scotland, long held by Tories. This was the first British political campaign that started before an election date was set.

Gladstone, his wife, and youngest daughter traveled by train and greeted thousands of people who, despite bitterly cold temperatures, had turned out for a glimpse of this famous man. He spoke to as many as 6,000 at a time. He urged that foreign policy be based on six principles. First, keep government small so people can prosper. Second, promote peaceful relations among nations. Third, maintain cooperation in Europe. Fourth, avoid "entangling engagements." Fifth, try to treat all nations equally. Sixth, "the foreign policy of England should always be inspired by the love of freedom . . . in freedom you lay the firmest foundations both of loyalty and order."

Queen Victoria thought it unseemly for a former Prime Minister to address ordinary people from a railway carriage. Disraeli called Gladstone an "Impetuous Hyprocrite" and knocked the Midlothian campaign as "a pilgrimage of passion," while Gladstone declared it was "a festival of freedom." But Gladstone won his seat, the Liberals swept out Disraeli's Tories, and Gladstone became Prime Minister again.

Gladstone wrestled with the consequences of Disraeli's reckless commitments around the world. Turks disregarded terms of the treaty which Disraeli helped broker with Russia. Boers battled British soldiers in South Africa. Arab nationalists revolted against the Egyptian government, and the popular British adventurer Charles Gordon was killed in Khartoum. Afghanistan became a quagmire. Although Gladstone withdrew from Afghanistan, overall he failed to reverse Disraeli's imperialist policies. At least he resisted embroiling Britain in more overseas conflicts.

Disraeli was obsessed with Gladstone, referring to him as the "Arch Villain." Disraeli remarked that "I really am alarmed for the country, governed by a vindictive lunatic." The bitter rivalry ended with Disraeli's death on April 19, 1881.

Besides dealing with foreign policy issues, Gladstone engineered the 1884 Reform Act, which expanded the number of voters from about 3 million to 5 million. Gladstone's

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Game Bill allowed farmers to hunt wild game, ending the centuries-long tradition that reserved the privilege exclusively for landlords.

There was an agricultural depression, and Irish discontent flared up as the biggest issue for Gladstone. An Irish Protestant lawyer named Isaac Butt had organized the Irish Home Government Association, and his cohorts won 50 seats in the 1874 election. Butt's reasonable approach, however, didn't produce results. Three years later, another Irish Protestant, Charles Stewart Parnell, decided it was time for tougher tactics. A young landowner and Member of Parliament, he began to hamstring proceedings thereby exploiting technicalities.

Parnell did what he could to stir up popular discontent against British rule. His battle cry was "Fair Rent, Fixed Tenure, Free Sale." In County Mayo, controversy focused on one Captain Boycott, a landlord's agent. Agricultural laborers refused to work his fields. Blacksmiths wouldn't take care of his horses. Mail carriers wouldn't deliver to his property. People did volunteer to help harvest his crops, but they required 7,000 soldiers to provide protection. Thus was born the tactic of "boycotting."

Violence became endemic in Ireland, especially after the bad harvest of 1879, and Conservatives called for more "coercion" bills, which included curfews and imprisoning people without having to file charges. Gladstone insisted that violence must be stopped, so he approved the 1881 Coercion Act, and he ordered Parnell jailed for stirring Irish peasants against his proposed new Irish Land Act—the feisty Irishman remained in jail for a year.

Gladstone believed peace would come to Ireland only when feudalism ended and peasants had a meaningful stake in their work. Accordingly, he threw his energies into the Irish Land Act, passed in 1881. It guaranteed tenants could retain their holding as long as they paid rent, avoided "persistent waste" and obeyed the laws. The bill guaranteed tenants could sell their holding, providing rent was paid in full. In the most ominous departure from laissez-faire principles, the law specified that judges would fix rents when tenants and landlords didn't reach their own agreements.

Influenced by philosopher and economist John Stuart Mill, who had written two pamphlets on the Irish land issue, Gladstone asserted freedom of contract just wasn't appropriate for feudal Ireland. This claim was later challenged by historians who made clear how freedom of contract undermined feudalism in Western Europe. Although motivated by a sincere desire for justice, Gladstone's seeming shortcut set a grievous precedent for government intervention, which became massive during the twentieth century.

Parnell called Gladstone's new Irish Land Act a fraud, and he urged continued Irish resistance. His bloc voted against Gladstone, forcing the Prime Minister's resignation on June 9, 1885. But because the Tories didn't get enough support in the subsequent elections, they refused to form a new government, and Gladstone formed his third ministry in January 1886. Parnell's followers had won 85 seats during the Parliamentary elections, and this seems to have convinced Gladstone that the time was ripe for really bold action. On April 8, 1886, he announced he was for Home Rule, although he hadn't campaigned on this explosive issue. Home Rule would have meant setting up an Irish Parliament to determine domestic policy. Ireland would have remained part of the British Empire, and the British Parliament would have handled international relations. Ireland would have contributed some tax revenue to help cover imperial expenses. There would have been no more Irish representatives in the British Parliament—hence the prospect of an end to Irish obstructionist tactics.

Home Rule split apart the Liberal party. Like John Bright, many believed their mission was to extend individual rights and the rule of law as widely as possible. They opposed what they considered concessions to violent peasants. They feared Home Rule would encourage demands for Irish independence and the unwinding of Great Britain. In June 1886, 94 Liberal members of Parliament voted against Gladstone's Home Rule bill, defeating it and leading to a general election which swept the Liberals out of power.

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The remaining Liberals were devoted mainly to domestic issues. They wanted more government intervention in the economy. Having approved much government intervention during the past decade, Gladstone began to see where it was headed—socialism—and he didn't like it. Moreover, as far as he was concerned the top priority was Irish Home Rule, which he viewed as a prelude for Home Rule in England, Scotland, and Wales—hopefully resulting in a federation with more freedom. The Liberals accepted Gladstone's views because they weren't ready to drop him as their leader. He was the "Grand Old Man," the most famous political personality in the land.

Liberals won the July 1892 general elections, and Gladstone formed his fourth ministry. A majority of English Members of Parliament were against Irish Home Rule, and those Members who remained with Gladstone were weary of the issue. But Gladstone had the support of 81 Irish nationalists, giving him an overall majority of 40 votes. He began his last political battle on February 13, 1893. He knew he would lose, but he persevered.

"Never did Gladstone speak more ably than on the introduction of the second Home Rule bill," reported biographer Walter Phelps Hall. "The old familiar thumping on the treasury box was renewed; the magic voice, so grave, so eloquent, now rose and fell in musical cadence, exhorting Englishmen. . . ."

On September 1, 1893, the House of Commons passed Gladstone's Home Rule bill, but a week later the Tory-dominated House of Lords rejected it. Tories hated Gladstone and the Irish nationalists. Queen Victoria shared the view of the Lords: "The mischief Mr. Gladstone does," she wrote, "is incalculable; instead of stemming the current and downward course of radicalism which he could do perfectly, he heads and encourages it, and alienates all true Whigs and moderate Liberals from him." The following March 1, he delivered his last speech, a denunciation of the House of Lords. Two days later, he resigned as Prime Minister.

He told his loyal associate and biographer John Morley: "I was brought up to hate and fear liberty. I came to love it. That is the secret of my whole career."

Gladstone died of cancer at Hawarden, around 4:00 A.M., May 19, 1898, surrounded by his wife and children. He was 88. The coffin was placed in Westminster Hall, and an estimated 250,000 people came to pay their respects. He was buried in Westminster Abbey, near his mentor Robert Peel, who had converted to free trade.

As Gladstone had anticipated, the Irish seized their destiny. On December 6, 1921, an Anglo-Irish treaty established the Irish Free State. With adoption of a constitution in 1937, this became the Republic of Ireland. It ended ties with the British Commonwealth in 1948. Northern Ireland, still subject to British rule, remains a place of chronic violence.

Gladstone achieved much for liberty. He was a world-class tax cutter. He slashed government spending. He secured the triumph of free trade. He helped give millions of taxpayers a greater say in their government. He did more than just about anyone else to advance the cause of Irish liberty. He courageously spoke out against imperialism, urging people to embrace liberty and peace rather than power and prestige. He displayed the kind of moral fervor that could help liberty rise again. □

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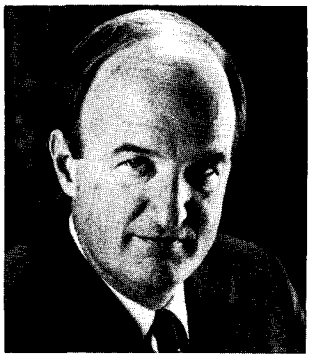

Austrians vs. The Chicago School, Part III

"Those [ideas] that are better tend to prosper and survive. Those that are worse tend to recede and vanish [like Austrian capital theory]."

—Sherwin Rosen, University of Chicago[1]

At every Mont Pelerin Society meeting, a debate develops between the two schools of free-market economics: the Austrians (followers of Ludwig von Mises) and the Chicago school (followers of Milton Friedman). I've discussed their similarities and differences in various columns (see, for example, the February, March, and April 1995 issues of *The Freeman*).

At this year's program, held in Vienna, Austria, the discussion centered around how much (or little) Austrian economics has been absorbed into the mainstream "neoclassical" model. At the end of the discussion, Professor Rosen made an interesting observation: the competitive free market of ideas tends to weed out bad economics from good economics. Good economics "passes the market test," he claimed, bad economics doesn't, and is discarded. Therefore, concluded Professor Rosen, if some Austrian concepts have not been absorbed by the "neoclassical" model, they are probably "useless" and need not be pursued. He cited Austrian capital theory as an example.

It was almost as if Professor Rosen was suggesting that a student need not bother with actually studying Austrian capital theory; one could simply dismiss it on the grounds that it was not being taught by mainstream economists.

Does the Market Guarantee Good Economics?

I first encountered this odd view of economic progress while reading a paper by Professor William Baumol (New York University) about college economics. Baumol, a textbook writer, boldly declared, "there is absolutely nothing wrong with the current state of economics," because, he claimed, the mainstream economic approach "is a superb machine for grinding out theorems."[2] In other words, the competitive process works in economic research. Through trial and error, economists sift and test theories, acquire good ones, and discard bad ones in a never-ending upward spiral of academic progress. In short, the science of economics marches onward and upward to its current advanced stage of knowledge and wisdom.

Based on this rather complacent view, Professor Baumol dismissed my criticisms of mainstream economics in *Economics on Trial* by reiterating, "I am totally unrepentant. There is absolutely nothing wrong. . . ."[3]

I offer two criticisms of this distorted view of the market of ideas. First, I question the

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competitive market process in academia. As Professor Peter Boettke (New York University) notes, the economics discipline, like most social sciences, is a market of *fashion*, not the free and equal exchange of ideas through a rigorous scientific method. Philosopher Thomas Kuhn made this point forcefully in his classic work, *The Structure of Scientific Revolutions* (University of Chicago Press, 1962). Kuhn pointed out that the history of science typically works very differently. Once a central paradigm is established, very little testing or sifting is done until a series of failures or anomalies emerges. Only when a "crisis" arises does the profession seek out a new paradigm, and there is no assurance that the next paradigm will be more correct than the previous one.

The Keynesian revolution is a case in point. During and immediately following the 1930s, most economists incorrectly concluded that free-market capitalism caused the Great Depression. Throughout the fifties and early sixties, Keynesianism triumphed in the academic world, and the free-market schools of Vienna and Chicago were dismissed out of hand. Granted, free-market economics has made a huge comeback, thanks to the efforts of Friedman, Buchanan, and Hayek, and the turn of world events—most notably, the collapse of Soviet communism in 1990. But let us not fall into the trap of thinking that economic errors automatically are eliminated in the classroom, or that deeply flawed ideas cannot be resurrected.

Murray Rothbard calls this progressive view of history the "Whig Theory" because nineteenth-century Whigs maintained that things were always getting better and better. He states, "the consequence [of the Whig theory of history] is the firm if implicit position that . . . there can be no such thing as gross systemic error that deeply flawed, or even invalidated, an entire school of economic thought, much less sent the world of economics permanently astray."[4] Rothbard rejects the Whig theory. In writing his history of economic thought, he concludes that "there can . . . be no presumption whatever in economics that later thought is better than earlier."

The Market Produces Goods and Bads

I offer another objection to Professor Rosen's view of the free market. He notes that in a free market bad musicians don't sell very many records. True enough, but one must distinguish between what is technically competent and what is morally deleterious. Certainly, Hollywood produces technically advanced films, with special effects, skilled acting, and superior photography, but it also makes films whose contents are often morally bankrupt. In short, the market does a great job in producing both "goods" and "bads."

Austrian Capital Theory, Again

Finally, a comment about Austrian capital theory, as developed by Eugen Böhm-Bawerk, Ludwig von Mises, and Friedrich Hayek. Admittedly, it is not currently part of the mainstream. But is it "useless"? Hardly. In fact, I frequently depend on the Austrian stages-of-production model in analyzing the economy and financial markets. Because it is usually ignored by the establishment, I can more easily use the Austrian model in predicting economic trends and developing financial strategies.[5] The unpopularity of Austrian capital theory does not make it wrong or useless. □

1. Sherwin Rosen, "Austrian and Neoclassical Economics: Any Gains from Trade?", Proceedings of the Mont Pelerin Society Meetings, Vienna, Austria, September 9, 1996.
2. William Baumol, "Economic Education and the Critics of Mainstream Economics," *Journal of Economic Education* (Fall 1988), pp. 323–4.
3. See the paperback edition of *Economics on Trial* (Burr Ridge, Ill.: Irwin, 1993).
4. Murray N. Rothbard, "Introduction," *Economic Thought Before Adam Smith* (London: Edward Elgar, 1995), p. ix.
5. See my work, *The Structure of Production* (New York: New York University Press, 1990), and *Austrian Economics for Investors* (London: Pickering & Chatto, 1996).

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Letters to the Editor: The Flat Tax

To the Editor:

In his article "The Flat Tax: Simplicity Desimplified" (*The Freeman*, October 1996), Roger Garrison implies that those who favor the flat tax do not care about the size of the tax burden. Since the vast majority of flat-tax supporters are big advocates of lower taxes, and since all the major flat-tax proposals include a significant tax reduction, this claim is somewhat confusing. Moreover, evidence from the states shows that single-rate tax systems make it harder for states to raise taxes. As such, adoption of a flat tax presumably would impose limits on the growth of taxes on the federal level (primarily because politicians would have a harder time using divide-and-conquer tactics).

Garrison argues that the tax system cannot be simplified. Given that the flat tax eliminates all the most difficult and confusing aspects of the current system, this assertion is quite puzzling. No longer would individuals or businesses have to worry about capital gains, depreciation, estates and gifts, alternative minimum tax, foreign tax provisions, inventory accounting, phase-outs, itemized deductions, and so forth. It is certainly true that there is no free lunch, but there certainly are ways to reduce the cost of the lunch, and tax reform provides those efficiencies.

Garrison also claims that huge problems would be created as taxpayers reclassify W-2 income as business income in order to take advantage of business deductions. The incentive to play that game, however, depends on the tax rate. Since the tax rate will come down under a flat tax, there actually will be less income shifting.

Perhaps the most glaring error is Garrison's claim that income from savings is not taxed under a flat tax. Even liberal economists admit that the core principle of the flat tax is to tax income only once. This means either taxing once when the income is first earned, but then leaving the returns alone (the Hall-Rabushka approach), or not taxing income that is saved, but taxing the interest and principal when spent (the IRA approach). Liberals admit that doing neither is double taxation, but justify it on pure income-redistribution grounds. It is difficult to imagine why anyone who believes in markets would adopt that position.

Garrison envisions a tax scam where employers give employees money to buy bonds, the interest to which would be nontaxable. He forgets, however, that the money provided to the employees under the flat tax would either be considered income to the worker (and thus taxable) or a fringe benefit (and thus taxable at the firm level). Either way the compensation is taxed (but not double taxed, since the interest properly is left alone).

Garrison believes that one rate has little to do with simplicity. In reality, one rate is critical if we want to tax all income at the source. One rate, for instance, allows us to tax AT&T one time on their income at the single rate of 17 percent. This is vastly preferable to tracking down all 2.2 million shareholders and imposing separate tax rates depending on their total income. The same thing with interest income. Not only will the single rate eliminate the one billion 1099 forms in the economy, it will also eliminate income shifting designed to have income declared to the low-tax person and deductions attached to the high-tax person.

All believers in limited government agree that the tax burden should be reduced to the maxi-

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mum extent possible. This goal is not in conflict, however, with the idea of making sure whatever level of taxes is collected is taken in the least destructive, least intrusive manner possible.

—DANIEL J. MITCHELL
McKenna Senior Fellow
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Washington, D.C.

Roger Garrison replies:

Dan Mitchell's challenging remarks, particularly his reference to a "glaring error" concerning the tax status of saved income, provide an opportunity for dealing with a common point of confusion. I take Robert Hall and Alvin Rabushka's *Flat Tax* (2nd ed., Hoover Institution Press, 1995) to be ground zero for the modern resurgence of interest in simplifying our tax system. Hall and Rabushka leave little doubt about the status of saving in their proposed system:

> Here is the logic of our system, stripped to the basics: We want to tax consumption. . . . We can measure consumption as income minus investment. A really simple tax would just have each firm pay tax on the total amount of income generated by the firm less that firm's investment in plant and equipment. (p. 55)

Saving, then, which stands in contrast to consumption and underlies investment, is not taxed. Hall and Rabushka's only significant departure from this "really simple tax" is one that exempts some consumption: the part of the firm's (gross) income that is paid out in wages is untaxed until it is in the hands of wage earners, each of whom is allowed a generous personal exemption. This provision causes a substantial amount of consumption to go untaxed and gives a progressive character to *average* tax rates, but it does not bring saving into the tax base.

Given the *ex post* macroeconomic identity between saving and investment, Hall and Rabushka could hardly fail to recognize the nature of their proposal: "Our proposal is based squarely on the principle of consumption taxation. Saving is untaxed. . . ." (p. 54). Yet the authors themselves are at least partly responsible for the current confusion. At critical points, they misleadingly write "income" instead of "consumption," and sometimes they write as if there were no difference between these two magnitudes. Although there are many such instances, I will cite just two: "The business tax . . . is carefully designed to tax every bit of income outside wages but to tax it only once" (p. 61). In fact, it is actually designed, as Hall and Rabushka had already stipulated, to tax only income net of investment, effectively converting the income tax to a tax on consumption. And virtually guaranteeing confusion, the authors explicitly affirm their "goal of taxing all income once at a common, low rate and achieving a broad consumption tax" (p. 63). This compound goal is simply at war with itself. Consumption and income are not the same thing; they differ precisely by the amount of income saved.

The confusion that has its roots in the original Hall and Rabushka proposal has caused Mr. Mitchell and undoubtedly others to see my exposition as involving a "glaring error." Some supply-siders leverage the confusion by insisting that "consumed income" is, in fact, what "income" actually means. Others offer the all-too-facile claim (not supported by Hall and Rabushka's basic logic) that saved income (or, alternatively, the yield on saved income) has already been taxed. These and other confusing claims stem from their using the rhetoric about taxing *income* once and only once in defense of a *consumption* tax. It is consumption, not income, that (beyond the generous personal exemptions) is taxed once and only once.

Several other points of disagreement raised by Mr. Mitchell are resolved once the tax status of investment (and hence saving) is established. For instance, there undoubtedly would be efforts in the private sector to disguise part of the (taxable) net income as (nontaxable) investment as well as efforts by the government to counter such attempts at tax avoidance.

Mr. Mitchell points to the vulnerability of our

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current system to the "divide-and-conquer tactics" of politicians trying to raise tax rates but fails to acknowledge that Hall and Rabushka's generous personal exemption, which converts flatness into progressivity, would seriously weaken taxpayer solidarity and expose their proposed system to those same divide-and-conquer tactics.

Remaining differences between Mr. Mitchell's views and my own are matters of perspective and judgment. Yes, some—maybe most—supply-siders would prefer tax reductions, but their willingness—even eagerness—to propose revenue-neutral or revenue-enhancing reform suggests their priorities lie elsewhere. And yes, given the complexities of the current system, there is plenty of room for reform in the direction of tax simplification. TANSTAAFL does not deny that some lunches are cheaper than others; TANSTAABST (There ain't no such thing as a big simple tax) should be interpreted analogously. My arguments do suggest that a tax system involving (1) postcard-size tax forms and (2) the transferring of hundreds of billions of dollars from the private sector to the public sector is (not-so-unhappily) outside the realm of possibility.

—ROGER W. GARRISON
Professor of Economics
Auburn University

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Economics of a Pure Gold Standard

by Mark Skousen

"The excellence of the gold standard is to be seen in the fact that it renders the determination of the monetary unit's purchasing power independent of the policies of governments and political parties."

—**Ludwig von Mises,** ***The Theory of Money and Credit***

In the new third edition of **Economics of a Pure Gold Standard,** world-renowned economist and author Mark Skousen explains why gold is honest money and how a return to gold may reestablish economic stability. Skousen not only makes the case for gold, but also examines the pros and cons of other monetary standards.

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BOOKS

The Central Banks

by Marjorie Deane and Robert Pringle

Viking Penguin • 1995 • 369 pages • $29.95

Reviewed by Douglas E. French

Believing that America's central bank, the Federal Reserve, has almighty power over interest rates and, in turn, the well-being of the country's economy, the financial press constantly focuses its attention on the actions of the Fed. "Fed watching" has become a thriving industry, with insiders like former Fed Governor Wayne Angell commanding $100 per minute for his take on what the Fed will do with interest rates.

In *The Central Banks*, authors Marjorie Deane and Robert Pringle examine whether these central bankers deserve such reverence and whether the institutions are able to accomplish their much-touted goal of "price stability."

For those readers who don't know how miserable central banks have been at stabilizing prices, none other than ex-Fed Chairman Paul Volcker breaks the news on the first page of the book's foreword: "It is a sobering fact that the prominence of central banks in this century has coincided with a general tendency towards more inflation, not less. [I]f the overriding objective is price stability, we did better with the nineteenth-century gold standard and passive central banks, with currency boards, or even with 'free banking.' The truly unique power of a central bank, after all, is the power to create money, and ultimately the power to create is the power to destroy."

Deane and Pringle take the reader on a central-bank history tour, beginning with Sweden's Riksbank, born in 1668. The next stop is the Bank of England, which although not the oldest, is considered the "Old Lady" of central banks. They continue on to Germany's central banking misadventures before returning home to the U.S. Congress's century-long quest for a supply of money that could be increased at will. The search culminated in the Federal Reserve Act, signed by Woodrow Wilson on December 23, 1913.

After recounting the Bretton Woods era, which Deane and Pringle describe as the "golden age" of central banking, the authors race through the actual mechanics of central banking—monetary policy, supervision, lifeboat operations, and exchange rates. The authors also look at the world's newest central banks, in various small countries and parts of the former Soviet Union.

Where do all these new central bankers learn their trade? "[L]arge scale training programs for central bankers are offered by a number of central banks, the IMF Institute in Washington, and a special training school, the Joint Vienna Institute." And what personality types should apply? The authors quote American journalist William Neikirk: "Central bankers are a breed apart from the rest of humanity. . . . They are aloof, secretive, frugal, independent, public-spirited, responsible and judgmental." But no matter what the training, central bankers no longer control monetary markets; "the markets set the pace and it will be a scramble to keep two strides behind. And that may seem undignified. But scramble central banks should do."

In their final chapters, the authors examine whether the world needs central banks at all. Unfortunately, Deane and Pringle devote only a page and a half to free banking, mentioning the work of Kevin Dowd and Kurt Schuler as well as Vera Smith's classic *The Rationale of Central Banking*. They then make the sweeping judgment that "even most theorists of free banking acknowledge that given present markets and political reality, central banks are necessary, at least for any country that wants to follow an independent monetary policy." Agreed, for any country that wants to print money for political ends, having a central bank makes the task easier. However, the authors do admit that "societies have managed without central banks in the past," and "several of the greatest economists have been either skeptics or outright opponents of central banking. These include Adam Smith, Walter Bagehot, Friedrich von Hayek and Milton Friedman." But Deane and Pringle think they know more than these scholars.

They conclude that the primary task of central banks is "price stability" and that because of the complexity of world markets, central banking "is no world for the amateur." But, with a quick glance at the book's appendix, the reader comes to a different conclusion: that the money business is not a place for government bureaucrats—amateur or professional. All that central banks offer are currencies that lose value—the best depreciate quickly (50 percent in 20 years for the German Bundesbank from 1971 to 1991), the worst lose their value virtually overnight. I'll take free banking and a gold standard outside government any time. □

Mr. French is a vice president in commercial real estate lending for a bank in Las Vegas, Nevada.

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Hands Off: Why Government Is a Menace to Economic Health

by Susan Lee

Simon & Schuster • 1996 • 252 pages • $23.00

Reviewed by Raymond J. Keating

Economist and author Susan Lee possesses a wonderful talent for making economics enjoyable to read. She also lays claim to a rather healthy skepticism of government economic activism. These two gifts combine to make *Hands Off: Why Government Is a Menace to Economic Health* worth reading.

Two points that Lee makes in the introduction set the tone for the entire book. First, she characterizes economics as "a way of interpreting the effect of incentives on behavior." Then she explains why government cannot fix economic problems: "Government activism often results in regulatory gridlock, produces unintended consequences, and/or creates an environment of uncertainty . . . at best, it can create a congenial climate for us to fix things. Once we get that through our heads and our hearts, economic life will be a lot more tolerable."

The remainder of *Hands Off* fleshes out these points through various means. Lee offers anecdotal accounts of businesses and individuals beaten up by misguided economic policies. For example, real faces and stories underscore the effects of the 1990 luxury tax and later efforts for a government takeover of the health-care industry.

The author wades into economic theory as well, though she leaves the reader wanting more in this particular area. Lee accurately identifies Keynesian economics as the source of our economic woes in the late twentieth century and explains some of the many flaws of Keynesian thought. Indeed, the book excels when Lee explains the results of, as she calls it, "big, busy government"—such as inflation, high taxes, budget deficits, and regulation, and their commensurate woes.

As for alternatives to Keynesian activism, Lee is generally friendly toward supply-side economics. Indeed, she criticizes supply-siders for lacking "a coherent theory." Lee continues: "Nor was [supply-side] a new way of looking at the world. The importance of incentives in economic behavior was well-trod territory." There is some legitimacy to the idea that supply-side lacks a certain coherency, but as for the incentives aspect, Lee's book illustrates that incentive economics suffered neglect under the Keynesian yoke and needed some impetus for rebirth, which supply-side economics undeniably helped to provide.

Lee favors rational expectations, or New Classical Economics. Cutting through the mathematical haze that normally engulfs rational expectations economics, Lee summarizes the central tenets of the rational expectations school: (1) the key principle in microeconomics—that markets work—is no less true for macroeconomics; and (2) that "[p]eople very quickly form expectations about the future that are accurate and are, as well, rapidly updated as new information becomes available." According to Lee, the bottom line for rational expectations is that "government could not 'manage' people's behavior in a predictable, constant fashion."

In a few rare instances, Lee does falter. She needs some clarity on the issue of the welfare state and its ills. For example, while arguing against the evils of big government and high taxes throughout the book, she drops in the following sentence without explanation: "The redistribution of income was a great success, at least in terms of the data: there was a sharp reduction in poverty, from 22 percent of the population in the early 1960s to 12 percent in 1979."

However, granting a few instances where the author's reasoning slips, *Hands Off* is generally sound and highly readable. Lee concludes by arguing that government limit itself to creating "a friendly economic environment for the private sector to be innovative, produce and employ people." How? The model is familiar to all free-market students of the economy, including low marginal tax rates, less regulation, gold-based money, less government spending, and free trade. □

Mr. Keating serves as chief economist for the Small Business Survival Foundation.

Free Enterprise Moves East: Doing Business from Prague to Vladivostok

by Carter Henderson

International Center for Economic Growth and ICS Press • 1996 • 288 pages • $24.95

Reviewed by Murray Sabrin

The genie is out of the bottle. From the heart of Central Europe to the easternmost regions of the former Soviet Union, the capitalist revolution has taken root—deeply in some areas, less so in others. According to Carter Henderson, former London bureau chief and front-page editor of the

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Wall Street Journal, "the triumph of capitalism" is transforming the lives of more than 400 million people. Consumption is in, while central planning, shortages, queues, and bureaucracy are on the way out.

The remarkable progress in some of the former Soviet satellites is nothing short of breathtaking. "Capitalism is running wild ... several million private businesses have been launched ... and households ... are getting their first taste of life in a consumer-driven culture." Foreign investment is pouring into Hungary, Poland, and the Czech Republic. The rule of law—one of the essential elements of a market economy—is being created to secure both property rights and contractual obligations. Price controls are being lifted, trade barriers are being dismantled, subsidies are being eliminated, privatization is proceeding at a rapid pace, and monetary inflation is being curtailed. In short, free enterprise is on a roll.

Nevertheless, the progress of the former Soviet "tigers" stands in sharp contrast to the slow pace of reform in Romania, Albania, and Bulgaria. Whether the three laggards can throw off the legacy of Stalinism remains to be seen. But given the enormous progress in their neighbors' well-being in such a short period of time, it would be tragic for the peoples of these nations to suffer more than they already have because of the dilatory actions of their elected officials.

After seven decades of a command economy, the people of the former Soviet Union are rediscovering the essence of entrepreneurship. Although some predict that "it will take a minimum of two generations—fifty years—to bring Russia's economy to where America was in the 1950s," the recent re-election of Boris Yeltsin is a confirmation that the Russian people do not want a return to a command system.

However, there are several major challenges ahead for republics newly formed from the remains of the Soviet empire. The Communist Party's influence in the Parliament must be countered and organized crime drastically reduced in Russia and other countries in order for a peaceful market economy to flourish.

Carter Henderson has presented a clear and comprehensive overview of the spread of free enterprise throughout the former Soviet empire. For academics, business executives, and others who want to learn about the progress and opportunities in one of the world's greatest economic transformations, *Free Enterprise Moves East* would be a good place to start.

Unfortunately, Henderson does not acknowledge the insights of the Austrian school economists who predicted the demise of central planning as early as 1922, with the publication of Ludwig von Mises' *Socialism.* Had *Socialism* been the bible of the Russian Revolution instead of *The Communist Manifesto,* the peoples from Prague to Vladivostok would have avoided the pain of the past and the uncertainty of the future.

Ideas matter, and Carter Henderson shows unequivocally that the greatest social experiment in the twentieth century was conducted using one of the most fallacious ideas known to the human race—statism. Hopefully, the gallant struggle to eliminate most—if not all—the remnants of statism will accelerate in the years ahead. □

Dr. Sabrin is professor of finance at Ramapo College of New Jersey and author of Tax Free 2000: The Rebirth of American Liberty.

Austrian Economics for Investors

Pickering and Chatto • 1996 • 48 pages, paperback. Contact FEE for price information.

Economics of a Pure Gold Standard, revised 3rd edition

by Mark Skousen

Foundation for Economic Education • 1996 • 192 pages • $14.95

Reviewed by Robert Batemarco

Early in his marriage, Ludwig von Mises told his wife that despite writing prolifically about money he was never likely to earn a great deal of it. Mark Skousen makes the case in *Austrian Economics for Investors* (subtitled Ludwig von Mises Goes to Wall Street) that the ideas of Mises and his confreres do indeed have money-making potential. Showing the importance of subjective elements in forecasting, the impact of government policies on economic growth, the behavior of different types of industries over the course of the business cycle, and the role of gold as an inflation hedge are but a few ways Skousen sees Austrian insights as helping the reader put his capital to work.

While *Austrian Economics for Investors* touches upon the topic of gold, the role as money of the metal Keynes once dismissed as "a barbarous relic" is discussed thoroughly in Skousen's *Economics of a Pure Gold Standard,* just re-issued by the Foundation for Economic Education. It goes one better than showing the reader how 100 percent gold

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reserve banking *might* work, by showing how it actually *did* work in seventeenth-century Amsterdam, Hamburg, and Venice. From there, it provides some unfamiliar details to the familiar story of how practices once considered criminal came to be venerable standards. Specifically, the author explains how money's fungibility (i.e., particular pieces of money not being specifically identifiable) led British courts to construe bank deposits as loans, culminating in the 1833 decision of *Pitts v. Glegg*, which conferred legal status and has not since been challenged to fractional reserve banking.

A thorough rendering of the views of hard money advocates, from the Founding Fathers through the Jacksonians, the British currency school, and Murray Rothbard, serves as prologue to a survey of the issues involved in a pure specie standard, including what the unit of account should be, whether to allow for private provision of coinage, and the role of banks under such a system. Free banking as an alternative to a pure gold standard is discussed here as well. Skousen also covers several perennial critiques of a 100 percent specie system including its purported costliness and violation of the sanctity of private contracts. In so doing, he shows the ease with which hard money proponents turn each of these arguments to the gold standard's advantage.

In the first case, they show how the cost of labor and capital expended to mine additional gold is dwarfed by the inflation, business cycles, bank failures, and hidden tax burden incurred under any regime with less than 100 percent reserves. In the second, their arguments hinge on the prohibition of fraud being a defense of private contracts rather than their violation. To the extent that depositors are informed about the banks' use of their money, this case is less than airtight. A stronger argument, conspicuous by its absence, is that any money creation which reduces the reserve ratio is really an act of counterfeiting.

While the economics of the gold standard is clearly this book's long suit, it stands out from mainstream treatments of these issues by dealing forthrightly with some of the ethical and philosophical issues of alternative monetary systems. Yet, the book ends with the sobering realization that the insights of the 100 percent gold standard advocates are necessary but not sufficient for breathing life into such a system. Or, as the author puts it, "the 100 percent specie standard, advantageous as it may be portrayed, can be instituted only through drastic reforms and economic disruptions. It may have theoretical beauty, but it lacks pedestrian attributes." Lovers of liberty can only hope that Skousen is as wrong about the prospects of returning to sound money as he believed Mises to be about the money-making implications of Austrian economics.

Dr. Batemarco, book review editor of The Freeman, *is director of analytics at a marketing research firm in New York City and teaches economics at Marymount College in Tarrytown, New York.*

The Privatization Process

Edited by Terry L. Anderson and Peter J. Hill

Rowman & Littlefield • 1996 • 274 pages • $62.65 cloth; $23.95 paperback

Reviewed by E. S. Savas

This is an interesting and excellent collection of essays related to privatization. Although a third of the chapters appeared elsewhere in different versions, the editors deserve credit for including those and commissioning the others. This eclectic group of contributions is dominated by the topic of property rights: half the twelve chapters focus on this issue —in Latin America, Mexico, Brazil, China, and post-communist countries.

The book might just as well have been titled *Prerequisites for Privatization*, rather than *The Process of Privatization*, for that is the emphasis of the readings on property rights. Only the chapters on New Zealand, the Czech Republic, and Mexico, and one on the specialized topic of spontaneous privatization in post-communist countries, can truly be said to discuss the process of privatization. The New Zealand case is an upbeat explanation, step by step, of why and how it was possible to carry out such wide-ranging economic reform in a democracy, contrary to expectations based on interest group politics. The chapter authors identify ten principles which guided successful economic restructuring there: (1) choose good people to carry out the process; (2) make quantum leaps; (3) do it fast; (4) build and maintain momentum; (5) be consistent and credible, because it builds confidence; (6) keep the public informed as to what to expect and when; (7) don't sell the public short; (8) maintain political composure to maintain public confidence; (9) get the fundamentals right; (10) stick to your guns.

The chapter on the process in Mexico provides a thoughtful and timely analysis of the privatization program carried out under President Salinas,

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the subsequent peso devaluation, and the resulting economic crisis and public disaffection with economic reform and privatization throughout Latin America. The author argues persuasively that the fatal flaw in the process was that privatization was carried out for financial reasons and not to reform and restructure a closed economy. This confirms my oft-stated observation about Mexico, Argentina, and other countries that the first thing that has to be privatized is the private sector. That is, existing private firms have no interest in a competitive economy where they would lose their cozy relationships with state-owned enterprises, and therefore they are as big an obstacle to effective reform as are unions. It would have been interesting had a comparable chapter on Argentina been included, as that nation seems to be suffering similar problems despite its wholesale privatization program.

Robert Poole, Jr., one of the early pioneers in privatization, presents a good worldwide overview of privatization and its role in economic development. The chapter on China is an absorbing description of the recent economic history of that nation. The chapter by Megginson, et al., is a condensation of their well known, important, and exhaustive study of the firm-level effects of privatization; in summary, there are significant increases in profits, productivity, capital investment, dividends, and—surprise—employment.

There is little structure to the volume; the chapters don't follow any obvious sequence and the writing styles range from academic to journalistic to political. In other words, the sum of the parts is greater than the whole, but each of the parts is well worth reading, in any order. □

Professor Savas is the director of the Privatization Research Organization, School of Public Affairs, Baruch College, City University of New York.

Emancipating Slaves, Enslaving Free Men: A History of the American Civil War

by Jeffrey Rogers Hummel

Open Court • 1996 • 421 pages • $39.95 cloth; $19.95 paperback

Reviewed by Doug Bandow

Is there anything new that could conceivably be written about the Civil War? No other conflict so enthralls U.S. amateur historians. There are no World War I re-enactors. The Spanish-American War inspires no nostalgia for the "lost cause." No other episode of American history can match the bibliographic output of that one four-year period more than a century ago.

But Jeffrey Rogers Hummel has produced a volume that offers both an accessible history of the war, along with its causes and aftermath, and a thoughtful interpretation that breaks with the usual idolatry of Lincoln and the unified nation state. The book should be read not only by Civil War buffs, but by everyone who has been force-fed the victor's tainted history of a conflict that killed 620,000 people, devastated a large section of the nation, and began the long process of centralization of power in Washington.

Hummel begins his book where the story of the Civil War properly begins—slavery. The hundreds of thousands of blacks kidnapped in Africa and enslaved in the new world were, of course, the glaring exceptions to the founding of a nation of free men. Many Americans understood the contradiction. Explains Hummel, "the Revolution's liberating spirit induced many white Americans to challenge slavery." But while emancipation spread across the North, it halted in the South.

Because large slaveowners, who dominated the South politically, would bear the greatest cost of emancipation, observes Hummel, "the slavocracy was willing to invest considerable political resources and eventually fight tooth and nail to preserve a system that in the long run benefited very few Americans." Other issues, particularly the tariff, were acrimonious, but only slavery was a union-breaker.

Hummel tells the standard story of the war though with less attention to the battles and a greater focus on economics than is customary. What really sets *Emancipating Slaves, Enslaving Free Men* apart is not new facts, but invaluable insights usually absent from more mainstream accounts. One is the significance of the South's two waves of secession. The deep seven went out over their fear—exaggerated, but real—about the future of slavery. The outer four, Arkansas, North Carolina, Tennessee, and Virginia, left only after Lincoln called out the troops to coerce the others into submission. Writes Hummel, "Previously unwilling to secede over the issue of slavery, these four states were now ready to fight for the ideal of a voluntary Union." Their willingness to do so adds moral complexity to what is normally presented as a simple crusade against slavery.

Even more important, Hummel asks whether the war was necessary. Hummel rises above the usual Lincoln hagiography to contest the sixteenth

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president's claim that the break-up of the union would have been disastrous. Thus, argues Hummel, "As an excuse for civil war, maintaining the State's territorial integrity is bankrupt and reprehensible." Only the abolition of slavery could conceivably provide such a justification—had that been the purpose, as opposed to the outgrowth, of the war, and had war been the only way to end slavery. Here Hummel is at his informative best. Of more than a score of slave societies, only America and Haiti used violence to uproot the peculiar institution. Although he does not believe that economics necessarily ensured slavery's extinction, he persuasively argues that "slavery was doomed *politically* even if Lincoln had permitted the small Gulf Coast Confederacy to depart in peace."

Finally, Hummel emphasizes the centralization of power that occurred during the Civil War. One aspect was the odious abuse of civil liberties and democratic processes in the North, usually dismissed by Lincoln idolators with what Hummel refers to as the "not as bad as Hitler-Stalin-Mao" excuse. Beyond that, however, he contends that "America's decisive transition" toward "government intervention over the free market and personal liberty at every level and in every sphere" started during the Civil War. As Hummel puts it: "In contrast to the whittling away of government that had preceded Fort Sumter, the United States had commenced its halting but inexorable march toward the welfare-warfare State of today."

Believers in freedom have long felt disenfranchised by the typical Civil War history. On the one side are the Lincoln idolators and triumphant nationalists, who view 620,000 dead as a small price to pay for an indissoluble union. On the other side are the southern traditionalists, who consider slavery to be but a minor blot on Idyllic Antebellum society. With *Emancipating Slaves, Enslaving Free Men*, Jeffrey Rogers Hummel fills the yawning philosophical gap in between. □

Mr. Bandow is a senior fellow at the Cato Institute and columnist for The Freeman. *He is the author of several books, most recently,* Tripwire: Korea and U.S. Foreign Policy in a Changed World.

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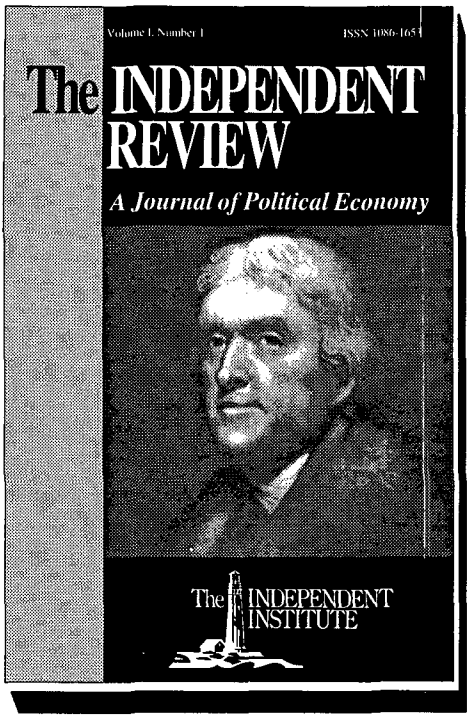

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